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Folder Title:
Tobacco Lookback

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February 18, 1997

The Appropriate Mix of Industry and Company-Specific Youth Lookback Penalties

The goal of youth lookback penalties is to provide *insurance*, in the case where the base payments (or excise tax equivalents) and other restrictions in comprehensive legislation do not sufficiently reduce youth smoking. As such, there is a clear case for having two types of youth lookback penalties:

- Industry penalties provide *price insurance*: they can be used to increase prices further in the event that the base payments (or excise tax equivalents) and other restrictions specified in the main part of the legislation fail to reduce teen smoking sufficiently;
- Company specific provide *non-price insurance*: penalties can be established to provide incentives to individual companies to reduce youth use of their particular brands through non-price mechanisms.

Industry Penalties

The appropriate role for industry penalties is to increase prices to ensure that youth smoking targets are met. As such, the structure of industry penalties should be as follows:

- The penalties should be expressed as cents per pack of cigarettes, per percentage point by which the target is missed - clearly delineating the price rise that would occur if the target is missed.
- There is no reason not to make these industry penalties deductible, since the direct goal is simply to have the penalties passed on in the form of higher prices in any case.
- An appropriate level at which to set these penalties in this case would be 3 cents per pack, per percentage point by which the target is missed. This is roughly the price increase required to reduce youth smoking by one percentage point, at today's levels of smoking
- These penalties could then be capped at \$1 per pack, to ensure that there is not an excessive rise in prices through this mechanism.

Company Penalties

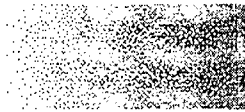
Industry penalties are useful for ensuring that prices rise further to deter youth smoking if we do not meet our youth targets. But, given the large youth reduction targets contemplated by legislation in this area, price incentives may not be enough. What is needed is incentives *for the tobacco companies themselves to reduce teenage use of their product*.

But industry-level penalties do not provide that incentive. Since these penalties are imposed on all firms at once, they can be passed on to price, so that no individual company has any particular

incentive to combat teen use of their product. What is required in this case is a *company-specific penalty* that can solve this “free rider” problem and incentivize tobacco companies to use their own resources to ensure that our youth targets are met. Several principles should guide the design of company-specific penalties:

- The advantage to specific companies of targeting youth smokers is that they potentially benefit from the loyalty of that smoker throughout their life. The appropriate penalty should therefore be determined by *the foregone future profit per youth smoker*. That is, a company that is deciding whether or not to target youth smokers will ask: is the payment sufficiently large that we should forgo the profits of attracting this teen?
- Our analysis points to a *break-even payment of \$454 per youth smoker* (with “youth smoker” defined by daily use of cigarettes, as measured in the youth surveys). Defining the payment as a dollar amount per youth smoker is the appropriate means of linking the penalty to foregone profits.
- These numbers were derived from a full analysis of the implied stream of profits over time that would be expected to be received from a teen smoker over the course of their lifetime. The analysis takes into account a variety of factors, including (1) per pack profits; (2) the likely number of packs of cigarettes smoked per day over different periods of the typical smoker’s life, (3) the probability that a teen smoker that is kept from smoking as a teen will ultimately smoke as an adult anyway; (4) discounting to present value of future profits and payment streams; (5) the distribution of teen smokers by age within the teen smoking surveys; (6) the effect of not using a double-counting adjustment mechanism; (7) the responses of teen decisions to smoke to price increases, etc.
- For these penalties, there is no case for tax deductibility, since the notion is that firms would bear these costs in the form of lower profits. If tax deductibility were permitted, that amount would have to be increased to \$668 per youth smoker.
- A penalty that was exactly equal to the present value of profits would leave the company indifferent about reducing youth smoking. Therefore, to create a strong incentive for companies to reduce youth smoking, the penalty should be specified as a *multiple* of the implied present value of profits.
- A sensible approach would be to assess “treble damages” (three times foregone profits) on companies that do not meet youth targets, doubling (to six times foregone profits) for those companies that grossly miss the targets (miss by more than 20 percentage points).
- But survey precision issues would mitigate a precise count of children smoking particular brands. A sensible pattern of payments could take the form:
 - \$15 million for every 10,000 children smoking that brand, if the brand falls short of its reduction target by 0-20%

- \$30 million for every 10,000 children smoking that brand, if the brand falls short of its reduction target by more than 20%
- There is no need to cap these penalty payments, which will remain small in aggregate; doing so would limit their effectiveness at the very point where they are most needed.



Jerold R. Mande

08/25/97 04:13:16 PM

Record Type: Record

To: Patrick G. Locke/OMB/EOP, Hugh T. Connelly/OMB/EOP
cc: Joseph J. Minarik/OMB/EOP, Randolph M. Lyon/OMB/EOP, Charles F. Stone/CEA/EOP, Elena Kagan/OPD/EOP
Subject: Tobacco penalty scenarios

Patrick and Hugh --

I am working with Bruce Reed and Elena Kagan on the proposed tobacco settlement. Could you please run the following penalty scenarios to see how much they cost? We need 10 and 25-year numbers, as well as year-by-year totals. We also need both pre- and post-tax cost (i.e., how much the industry must earn in order to pay the penalty). I don't know what tax rate to assume; the companies say 42%. Can you do these runs with a range of scenarios about how much youth smoking goes down -- i.e, missing by 10 pts, by 15 pts, by 20 pts, by 25 pts, by 30 pts. Thank you.

1. Two-tier penalty structure, as follows:

- * If industry misses target by less than 10%, each point costs \$80 million, and is tax-deductible.
- * If industry misses target by more than 10%, each point (above the first 10) costs \$160 million, and is not tax-deductible.
- * Eliminate the cap.
- * Keep the double counting provision as written.

2. One-tier penalty, but not tax-deductible:

- * Each point costs \$80 million
- * No cap.
- * Keep double counting provision.
- * Find out the pretax cost to the company

3. Higher one-tier penalty, but tax-deductible:

- * \$160 million a point
- * No cap.
- * Keep double counting provision.

4. Excise tax trigger:

- * \$80 million a point, tax-deductible.
- * Keep \$2 billion cap.
- * Keep double counting.
- * If industry misses target in year 5, it triggers 10 cent a pack tax. If target missed in year 7, that tax rises to 20 cents a pack. If target missed in year 10, rises to 30 cents a pack.

Patrick G. Locke

09/02/97 08:34:56 PM

Record Type: Record

To: Jerold R. Mande/OSTP/EOP

cc: See the distribution list at the bottom of this message

Subject: Re: Tobacco penalty scenarios 

The attached spreadsheets contain the variants on the youth lookback surcharge that you asked for last week. All of these spreadsheets are set up to print a summary table and a more detailed table.

For each scenario, I have created two spreadsheets. The first estimates teen demand based on price effects only. This is consistent with Treasury's scenarios to date. The second spreadsheet for each scenario adds a 30% nonprice effect on top of the price effect. Even with this large nonprice effect, the teen smoking targets are generally not met, but the lower teen smoking does illustrate the sensitivity of the surcharge variants to teen smoking outcomes.

The scenarios are as follows:

Base scenario -- \$80 million surcharge per percentage shortfall from the target. Surcharge is deductible by the industry. This scenario is in tobacco.wk4 (price only) and tobacn.wk4 (nonprice).



tobacco.wk



tobacn.wk4

Uncapped, doubled surcharge -- \$160 million surcharge per percentage point, still deductible. No cap on surcharge payments. This scenario is in tobacm1.wk4 and tobacn1.wk4.



tobacm1.wk



tobacn1.wk

Nondeductible, uncapped surcharge -- \$80 million surcharge per percentage point, but not tax deductible. These scenarios assume that the industry will raise prices sufficiently to recoup the required penalty on an aftertax basis. As a result, the budget will gain increased receipts from the corporation income tax. The pretax cost to the companies is the sum of the surcharge and the increased corporation income tax. These scenarios are in tobacm2.wk4 and tobacn2.wk4.



tobacm2.wk



tobacn2.wk

Two tier, uncapped surcharge -- \$80 million deductible surcharge per percentage point up to 10 percentage points, followed by \$160 million nondeductible surcharge per percentage point for any shortfall above 10 percentage points. Again, any nondeductible surcharge results in higher

corporation income tax payments. These scenarios are in tobacm3.wk4 and tobacn3.wk4.



tobacm3.wk



tobacn3.wk

Excise tax trigger -- In addition to the surcharge in the settlement, an excise tax of 10 cent a pack in 2003, 20 cents in 2005, and 30 cents in 2008 if the youth targets are not met. These scenarios are in tobacm4.wk4 and tobacn4.wk4.



tobacm4.wk



tobacn4.wk

Message Copied To:

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SUMMARY OF BUDGETARY EFFECTS OF PROPOSED SETTLEMENT

BASE SCENARIO

(In billions of dollars)

09/03/97

09:13 AM

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	98-03	98-08
RECEIPTS													
Base Payment (inc. trust and up-front payment).....	10	9	10	12	14	15	15	15	15	15	15	69	144
Payments to Recoup Excise Tax Credit and/or Losses..	---	---	---	---	---	---	---	---	---	---	---	---	---
Adult Sales Volume Adjustment.....	---	(1)	(1)	(1)	(2)	(3)	(3)	(3)	(3)	(3)	(3)	(8)	(21)
Credit for Personal Compensation Claims.....	---	(1)	(2)	(2)	(2)	(2)	(3)	(3)	(3)	(3)	(3)	(9)	(24)
Inflation Adjustment.....	---	0	0	1	1	2	2	2	3	3	3	4	17
Credit for BBA Excise Taxes.....	---	---	(2)	(2)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(11)	(27)
Look-Back Surcharge for Youth Consumption.....	---	---	---	---	---	3	2	3	2	1	3	3	13
Net Industry Settlement Payments.....	10	7	5	7	8	11	10	11	11	10	12	47	101
Tax Offsets													
Indirect Business Tax Offset.....	(3)	(2)	(1)	(2)	(2)	(3)	(2)	(3)	(3)	(3)	(3)	(12)	(25)
Corporate Income Tax on Look-Back Surcharge.....	---	---	---	---	---	---	---	---	---	---	---	---	---
Youth Excise Tax Trigger.....	---	---	---	---	---	---	---	---	---	---	---	---	---
Reduction in Existing Federal Excise Taxes.....	---	(0)	(0)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(3)	(7)
Total Federal Tax Offsets.....	(3)	(2)	(2)	(2)	(3)	(4)	(3)	(4)	(4)	(3)	(4)	(15)	(32)
Net Additional Receipts to US Government.....	8	5	3	5	5	7	7	8	7	7	8	32	69
POTENTIAL USES/CHANGES													
State Attorneys General Proposals, Total.....	---	5	5	6	7	9	6	7	7	4	4	32	59
Offset Reduction in State Excise Taxes.....	---	1	1	1	1	1	1	1	1	1	1	4	10
Use of Youth Look-Back Surcharge (90% grants).....	---	---	---	---	---	3	2	3	2	1	3	3	13
Potential Increase in Federal Medicaid Match.....	1	2	1	2	2	3	2	3	3	3	3	10	24
Total Potential Uses.....	1	7	7	9	10	16	12	13	13	9	11	49	106
Memoranda:													
Ad Valorem Equivalent of Net Payments.....	17%	13%	17%	19%	27%	25%	27%	26%	25%	28%			
Change in Total Cigarette Consumption.....	-7%	-6%	-8%	-9%	-12%	-11%	-12%	-12%	-11%	-13%			
Percentage Point Shortfall from Youth Target.....					30%	26%	47%	46%	47%	58%			

Potential Budgetary Impacts of Tobacco Agreement
Base Scenario
(in billions of dollars)

09/03/97
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	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	98-03	98-08
Federal revenues:													
Industry payments:													
Up-front payment.....	10.0	---	---	---	---	---	---	---	---	---	---	10.0	10.0
Public health trust funds in bill.....	---	2.5	2.5	3.5	4.0	5.0	2.5	2.5	2.5	---	---	17.5	25.0
Base amounts in bill.....	---	6.0	7.0	8.0	10.0	10.0	12.5	12.5	12.5	15.0	15.0	41.0	108.5
Additional amounts to recover BBA97 credit.....	---	---	---	---	---	---	---	---	---	---	---	---	---
Additional amounts to recover excise tax losses.....	---	---	---	---	---	---	---	---	---	---	---	---	---
Adult sales volume adjustments.....	---	(0.7)	(0.9)	(1.4)	(2.0)	(2.6)	(2.6)	(2.8)	(2.7)	(2.7)	(2.9)	(7.7)	(21.5)
Credits for civil suits at cap.....	---	(1.4)	(1.7)	(1.9)	(2.3)	(2.2)	(2.7)	(2.7)	(2.7)	(3.2)	(3.2)	(9.4)	(23.9)
Inflation adjustments on above.....	---	0.2	0.4	0.8	1.2	1.6	1.9	2.2	2.6	2.7	3.1	4.2	16.6
Credit for BBA97 excise tax increase.....	---	---	(2.4)	(2.3)	(3.4)	(3.2)	(3.3)	(3.2)	(3.2)	(3.2)	(3.2)	(11.3)	(27.3)
Look-back surcharge.....	---	---	---	---	---	2.6	1.6	2.7	2.0	1.5	3.0	2.6	13.4
User fees for nonparticipants.....	---	---	---	---	---	---	---	---	---	---	---	---	---
Net penalties.....	---	---	---	---	---	---	---	---	---	---	---	---	---
Subtotal, industry payments.....	10.0	6.5	5.0	6.7	7.6	11.1	9.9	11.2	10.9	10.0	11.7	46.9	100.7
Tax offset at 25% (IBT).....	(2.5)	(1.6)	(1.2)	(1.7)	(1.9)	(2.8)	(2.5)	(2.8)	(2.7)	(2.5)	(2.9)	(11.7)	(25.2)
Corporate income tax on look-back surcharge.....	---	---	---	---	---	---	---	---	---	---	---	---	---
Teen excise tax.....	---	---	---	---	---	---	---	---	---	---	---	---	---
Reduction in tobacco excise taxes (non-PAYGO).....	---	(0.3)	(0.4)	(0.5)	(0.7)	(0.9)	(0.8)	(0.9)	(0.8)	(0.8)	(0.9)	(2.8)	(7.1)
Total, Federal revenues.....	7.5	4.5	3.3	4.5	5.0	7.5	6.6	7.6	7.3	6.7	7.9	32.4	68.5
Federal outlays:													
Public health trust funds in bill.....	---	2.6	2.7	3.8	4.5	5.8	3.0	3.1	3.2	---	---	19.4	28.6
HHS direct programs and grants to States.....	---	0.1	0.1	0.1	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.9	2.3
FDA direct enforcement and grants to States.....	---	0.3	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.4	1.6	3.5
Grants to States for ASSIST-type programs.....	---	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.5	1.3
Direct Federal R&D to discourage tobacco use.....	---	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.5	1.2
Payments to tobacco-sponsored events/teams.....	---	---	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.3	0.8
Public educ. campaign run by non-profit board.....	---	0.5	0.5	0.5	0.6	0.6	0.6	0.6	0.6	0.7	0.7	2.7	5.9
HHS payments for tobacco use cessation programs.....	---	1.0	1.1	1.1	1.1	1.7	1.8	1.8	1.9	2.0	2.0	6.0	15.5
Spending of look-back surcharge (90% grants).....	---	---	---	---	---	2.6	1.6	2.7	2.0	1.5	3.0	2.6	13.4
Subtotal, specified spending in bill.....	---	4.7	5.0	6.2	7.1	11.6	8.0	9.3	8.7	5.2	6.8	34.6	72.6
Unspecified residual to reach total payments.....	10.0	1.8	(0.0)	0.5	0.5	(0.5)	1.9	2.0	2.1	4.9	5.0	12.3	28.2
Total, Federal outlays, excl. debt Service.....	10.0	6.5	5.0	6.7	7.6	11.1	9.9	11.2	10.9	10.0	11.7	46.9	100.7
Federal deficit:													
Revenues (deficit effect).....	(7.5)	(4.5)	(3.3)	(4.5)	(5.0)	(7.5)	(6.6)	(7.6)	(7.3)	(6.7)	(7.9)	(32.4)	(68.5)
Programmatic outlays.....	10.0	6.5	5.0	6.7	7.6	11.1	9.9	11.2	10.9	10.0	11.7	46.9	100.7
Debt service.....	0.1	0.2	0.3	0.4	0.5	0.7	0.9	1.1	1.3	1.5	1.8	2.1	8.6
Federal deficit.....	2.6	2.2	1.9	2.6	3.1	4.3	4.2	4.8	4.9	4.8	5.6	16.6	40.9
MEMORANDUM: PAYGO budget effects:													
Revenues (deficit effect).....	(7.5)	(4.9)	(3.7)	(5.0)	(5.7)	(8.4)	(7.5)	(8.4)	(8.2)	(7.5)	(8.8)	(35.2)	(75.6)
Outlays.....	10.0	6.5	5.0	6.7	7.6	11.1	9.9	11.2	10.9	10.0	11.7	46.9	100.7
Total PAYGO deficit effect.....	2.5	1.6	1.2	1.7	1.9	2.8	2.5	2.8	2.7	2.5	2.9	11.7	25.2
ADDENDA:													
Available (residual) spending if held to PAYGO neutrality.....	7.5	0.2	(1.2)	(1.2)	(1.4)	(3.3)	(0.5)	(0.8)	(0.6)	2.4	2.0	0.6	3.0
Available (residual) spending if held to budget neutrality..	7.5	(0.1)	(1.6)	(1.7)	(2.1)	(4.2)	(1.4)	(1.7)	(1.4)	1.5	1.1	(2.2)	(4.1)
Deficit impact of higher CPI (COLAs and indexation).....	---	0.5	1.5	2.5	3.4	3.9	4.2	4.4	4.5	4.6	4.6	11.9	34.3
Potential increase in Federal matching grants(lower end)	0.8	0.9	(0.0)	0.2	0.2	(0.3)	1.0	1.0	1.1	2.4	2.5	1.9	9.8
Potential increase in Federal matching grants(upper end)	1.0	1.6	1.2	1.7	1.9	2.8	2.5	2.8	2.7	2.5	2.9	10.2	23.7
Reduction in current law State excise tax revenues.....	---	(0.6)	(0.5)	(0.7)	(0.8)	(1.1)	(1.1)	(1.2)	(1.2)	(1.1)	(1.3)	(3.8)	(9.6)

See Footnotes Next Page.

1. Reduction in tobacco volume is assumed to result solely from price increases due to passthrough of industry payments.
Access restrictions, public education, and cessation programs are assumed to have no additional effect.
2. Civil liability settlements are assumed to be at cap (33% of industry basic payments). Cap is assumed to be a single 33% cap for suits based on past and future conduct.
3. Corporate income tax rate of 35% is assumed in scenarios where surcharge payments are nondeductible.
4. No manufacturers are assumed to qualify for 75% good faith surcharge abatement.
5. All manufacturers are assumed to participate in the settlement.
6. All manufacturers are assumed to meet compliance plan and corporate culture requirements.
7. Amounts are assumed to increase for inflation as follows: (a) industry payments increase for inflation beginning in 1999;
(b) outlays increase for inflation beginning in 1999; (c) surcharge amount and cap increase for inflation beginning in 1997.
8. All industry payments are assumed to score as Federal Indirect Business Taxes (excise tax receipts).
As Indirect Business Taxes, industry payments are subject to a 25% income offset (BEA convention).
9. All payments are assumed to be spent as Federal outlays.
10. Industry payments are reduced to provide a credit for excise tax increases enacted as part of BBA '97.
11. States could use some portion of increased funds to increase matched grant spending, thereby generating a Federal match.
12. CPI effects shown as memorandum only because they at least partially overlap with the 25% income offset.

SUMMARY OF BUDGETARY EFFECTS OF PROPOSED SETTLEMENT
BASE SCENARIO WITH ADDITIONAL 30% NONPRICE REDUCTION IN TEEN SMOKING
(In billions of dollars)

09/03/97

09:16 AM

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	98-03	98-08
RECEIPTS													
Base Payment (inc. trust and up-front payment).....	10	9	10	12	14	15	15	15	15	15	15	69	144
Payments to Recoup Excise Tax Credit and/or Losses..	---	---	---	---	---	---	---	---	---	---	---	---	---
Adult Sales Volume Adjustment.....	---	(1)	(1)	(1)	(2)	(2)	(2)	(2)	(2)	(3)	(3)	(7)	(20)
Credit for Personal Compensation Claims.....	---	(1)	(2)	(2)	(2)	(2)	(3)	(3)	(3)	(3)	(3)	(10)	(24)
Inflation Adjustment.....	---	0	0	1	1	2	2	2	3	3	3	4	17
Credit for BBA Excise Taxes.....	---	---	(2)	(2)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(11)	(28)
Look-Back Surcharge for Youth Consumption.....	---	---	---	---	---	0	---	1	1	0	2	0	4
Net Industry Settlement Payments.....	10	7	5	7	8	9	9	10	10	9	11	45	93
Tax Offsets													
Indirect Business Tax Offset.....	(3)	(2)	(1)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(3)	(11)	(23)
Corporate Income Tax on Look-Back Surcharge.....	---	---	---	---	---	---	---	---	---	---	---	---	---
Youth Excise Tax Trigger.....	---	---	---	---	---	---	---	---	---	---	---	---	---
Reduction in Existing Federal Excise Taxes.....	---	(0)	(0)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(3)	(7)
Total Federal Tax Offsets.....	(3)	(2)	(2)	(2)	(3)	(3)	(3)	(3)	(3)	(3)	(4)	(14)	(30)
Net Additional Receipts to US Government.....	8	5	3	5	5	6	6	7	7	6	7	31	63
POTENTIAL USES/CHANGES													
State Attorneys General Proposals, Total.....	---	5	5	6	7	9	6	7	7	4	4	32	59
Offset Reduction in State Excise Taxes.....	---	1	1	1	1	1	1	1	1	1	1	4	9
Use of Youth Look-Back Surcharge (90% grants).....	---	---	---	---	---	0	---	1	1	0	2	0	4
Potential Increase in Federal Medicaid Match.....	1	2	1	2	2	2	2	2	2	2	3	10	22
Total Potential Uses.....	1	7	7	9	10	12	9	11	11	8	10	45	94
Memoranda:													
Ad Valorem Equivalent of Net Payments.....	17%	13%	17%	20%	22%	22%	24%	24%	24%	24%	27%		
Change in Total Cigarette Consumption.....	-7%	-6%	-8%	-9%	-10%	-10%	-11%	-11%	-11%	-11%	-12%		
Percentage Point Shortfall from Youth Target.....					1%	-6%	14%	13%	14%	14%	24%		

Potential Budgetary Impacts of Tobacco Agreement
Base Scenario With Additional 30% Nonprice Reduction in Teen Smoking
(in billions of dollars)

09/03/97
09:16 AM
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	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	98-03	98-08
Federal revenues:													
Industry payments:													
Up-front payment.....	10.0	---	---	---	---	---	---	---	---	---	---	10.0	10.0
Public health trust funds in bill.....	---	2.5	2.5	3.5	4.0	5.0	2.5	2.5	2.5	---	---	17.5	25.0
Base amounts in bill.....	---	6.0	7.0	8.0	10.0	10.0	12.5	12.5	12.5	15.0	15.0	41.0	108.5
Additional amounts to recover BBA97 credit.....	---	---	---	---	---	---	---	---	---	---	---	---	---
Additional amounts to recover excise tax losses.....	---	---	---	---	---	---	---	---	---	---	---	---	---
Adult sales volume adjustments.....	---	(0.7)	(0.9)	(1.3)	(1.9)	(2.2)	(2.3)	(2.5)	(2.5)	(2.5)	(2.7)	(7.1)	(19.6)
Credits for civil suits at cap.....	---	(1.5)	(1.7)	(1.9)	(2.3)	(2.2)	(2.8)	(2.8)	(2.8)	(3.3)	(3.2)	(9.5)	(24.4)
Inflation adjustments on above.....	---	0.2	0.4	0.8	1.2	1.7	1.9	2.2	2.6	2.8	3.1	4.3	17.0
Credit for BBA97 excise tax increase.....	---	---	(2.4)	(2.3)	(3.4)	(3.3)	(3.3)	(3.3)	(3.3)	(3.2)	(3.2)	(11.3)	(27.6)
Look-back surcharge.....	---	---	---	---	---	0.1	---	1.1	0.7	0.5	1.9	0.1	4.3
User fees for nonparticipants.....	---	---	---	---	---	---	---	---	---	---	---	---	---
Net penalties.....	---	---	---	---	---	---	---	---	---	---	---	---	---
Subtotal, industry payments.....	10.0	6.5	5.0	6.8	7.7	9.0	8.5	9.9	9.8	9.2	10.8	44.9	93.2
Tax offset at 25% (IBT).....	(2.5)	(1.6)	(1.2)	(1.7)	(1.9)	(2.2)	(2.1)	(2.5)	(2.5)	(2.3)	(2.7)	(11.2)	(23.3)
Corporate income tax on look-back surcharge.....	---	---	---	---	---	---	---	---	---	---	---	---	---
Teen excise tax.....	---	---	---	---	---	---	---	---	---	---	---	---	---
Reduction in tobacco excise taxes (non-PAYGO).....	---	(0.3)	(0.4)	(0.5)	(0.7)	(0.7)	(0.7)	(0.8)	(0.8)	(0.8)	(0.8)	(2.7)	(6.6)
Total, Federal revenues.....	7.5	4.5	3.3	4.6	5.1	6.0	5.7	6.6	6.6	6.2	7.3	31.0	63.3
Federal outlays:													
Public health trust funds in bill.....	---	2.6	2.7	3.8	4.5	5.8	3.0	3.1	3.2	---	---	19.4	28.6
HHS direct programs and grants to States.....	---	0.1	0.1	0.1	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.9	2.3
FDA direct enforcement and grants to States.....	---	0.3	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.4	1.6	3.5
Grants to States for ASSIST-type programs.....	---	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.5	1.3
Direct Federal R&D to discourage tobacco use.....	---	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.5	1.2
Payments to tobacco-sponsored events/teams.....	---	---	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.3	0.8
Public educ. campaign run by non-profit board.....	---	0.5	0.5	0.5	0.6	0.6	0.6	0.6	0.6	0.7	0.7	2.7	5.9
HHS payments for tobacco use cessation programs.....	---	1.0	1.1	1.1	1.1	1.7	1.8	1.8	1.9	2.0	2.0	6.0	15.5
Spending of look-back surcharge (90% grants).....	---	---	---	---	---	0.1	---	1.1	0.7	0.5	1.9	0.1	4.3
Subtotal, specified spending in bill.....	---	4.7	5.0	6.2	7.1	9.2	6.4	7.6	7.4	4.2	5.7	32.2	63.5
Unspecified residual to reach total payments.....	10.0	1.8	0.0	0.5	0.5	(0.2)	2.2	2.2	2.4	5.1	5.2	12.8	29.7
Total, Federal outlays, excl. debt Service.....	10.0	6.5	5.0	6.8	7.7	9.0	8.5	9.9	9.8	9.2	10.8	44.9	93.2
Federal deficit:													
Revenues (deficit effect).....	(7.5)	(4.5)	(3.3)	(4.6)	(5.1)	(6.0)	(5.7)	(6.6)	(6.6)	(6.2)	(7.3)	(31.0)	(63.3)
Programmatic outlays.....	10.0	6.5	5.0	6.8	7.7	9.0	8.5	9.9	9.8	9.2	10.8	44.9	93.2
Debt service.....	0.1	0.2	0.3	0.4	0.5	0.7	0.8	1.0	1.2	1.4	1.7	2.1	8.2
Federal deficit.....	2.6	2.2	1.9	2.6	3.1	3.6	3.7	4.3	4.4	4.5	5.2	16.0	38.1
MEMORANDUM: PAYGO budget effects:													
Revenues (deficit effect).....	(7.5)	(4.9)	(3.7)	(5.1)	(5.7)	(6.7)	(6.4)	(7.4)	(7.4)	(6.9)	(8.1)	(33.7)	(69.9)
Outlays.....	10.0	6.5	5.0	6.8	7.7	9.0	8.5	9.9	9.8	9.2	10.8	44.9	93.2
Total PAYGO deficit effect.....	2.5	1.6	1.2	1.7	1.9	2.2	2.1	2.5	2.5	2.3	2.7	11.2	23.3
ADDENDA:													
Available (residual) spending if held to PAYGO neutrality	7.5	0.2	(1.2)	(1.1)	(1.4)	(2.4)	0.0	(0.2)	(0.1)	2.7	2.4	1.5	6.4
Available (residual) spending if held to budget neutrality..	7.5	(0.1)	(1.6)	(1.7)	(2.0)	(3.2)	(0.7)	(1.0)	(0.9)	2.0	1.6	(1.1)	(0.2)
Deficit impact of higher CPI (COLAs and indexation).....	---	0.5	1.5	2.5	3.4	3.9	4.2	4.4	4.5	4.6	4.6	11.9	34.3
Potential increase in Federal matching grants(lower end)	0.8	0.9	0.0	0.3	0.3	(0.1)	1.1	1.1	1.2	2.5	2.6	2.1	10.6
Potential increase in Federal matching grants(upper end)	1.0	1.6	1.2	1.7	1.9	2.2	2.1	2.5	2.5	2.3	2.7	9.7	21.8
Reduction in current law State excise tax revenues.....	---	(0.6)	(0.5)	(0.7)	(0.8)	(0.9)	(0.9)	(1.1)	(1.1)	(1.1)	(1.2)	(3.6)	(9.0)

See Footnotes Next Page.

1. Reduction in tobacco volume is assumed to result solely from price increases due to passthrough of industry payments.
Access restrictions, public education, and cessation programs are assumed to have no additional effect.
2. Civil liability settlements are assumed to be at cap (33% of industry basic payments). Cap is assumed to be a single 33% cap for suits based on past and future conduct.
3. Corporate income tax rate of 35% is assumed in scenarios where surcharge payments are nondeductible.
4. No manufacturers are assumed to qualify for 75% good faith surcharge abatement.
5. All manufacturers are assumed to participate in the settlement.
6. All manufacturers are assumed to meet compliance plan and corporate culture requirements.
7. Amounts are assumed to increase for inflation as follows: (a) industry payments increase for inflation beginning in 1999;
(b) outlays increase for inflation beginning in 1999; (c) surcharge amount and cap increase for inflation beginning in 1997.
8. All industry payments are assumed to score as Federal Indirect Business Taxes (excise tax receipts).
As Indirect Business Taxes, industry payments are subject to a 25% income offset (BEA convention).
9. All payments are assumed to be spent as Federal outlays.
10. Industry payments are reduced to provide a credit for excise tax increases enacted as part of BBA '97.
11. States could use some portion of increased funds to increase matched grant spending, thereby generating a Federal match.
12. CPI effects shown as memorandum only because they at least partially overlap with the 25% income offset.

SUMMARY OF BUDGETARY EFFECTS OF PROPOSED SETTLEMENT
WITH UNCAPPED YOUTH SURCHARGE OF \$160 MILLION PER PERCENTAGE POINT
(In billions of dollars)

09/03/97

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	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	98-03	98-08
RECEIPTS													
Base Payment (inc. trust and up-front payment).....	10	9	10	12	14	15	15	15	15	15	15	69	144
Payments to Recoup Excise Tax Credit and/or Losses..	---	---	---	---	---	---	---	---	---	---	---	---	---
Adult Sales Volume Adjustment.....	---	(1)	(1)	(1)	(2)	(3)	(2)	(3)	(3)	(3)	(3)	(8)	(23)
Credit for Personal Compensation Claims.....	---	(1)	(2)	(2)	(2)	(2)	(3)	(3)	(3)	(3)	(3)	(9)	(24)
Inflation Adjustment.....	---	0	0	1	1	2	2	2	3	3	3	4	16
Credit for BBA Excise Taxes.....	---	---	(2)	(2)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(11)	(27)
Look-Back Surcharge for Youth Consumption.....	---	---	---	---	---	7	---	8	1	4	5	7	26
Net Industry Settlement Payments.....	10	7	5	7	8	15	8	16	10	13	14	51	112
Tax Offsets													
Indirect Business Tax Offset.....	(3)	(2)	(1)	(2)	(2)	(4)	(2)	(4)	(3)	(3)	(3)	(13)	(28)
Corporate Income Tax on Look-Back Surcharge.....	---	---	---	---	---	---	---	---	---	---	---	---	---
Youth Excise Tax Trigger.....	---	---	---	---	---	---	---	---	---	---	---	---	---
Reduction in Existing Federal Excise Taxes.....	---	(0)	(0)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(3)	(8)
Total Federal Tax Offsets.....	(3)	(2)	(2)	(2)	(3)	(5)	(3)	(5)	(3)	(4)	(4)	(16)	(36)
Net Additional Receipts to US Government.....	8	5	3	5	5	10	6	11	7	9	9	35	76
POTENTIAL USES/CHANGES													
State Attorneys General Proposals, Total.....	---	5	5	6	7	9	6	7	7	4	4	32	59
Offset Reduction in State Excise Taxes.....	---	1	1	1	1	1	1	2	1	1	1	4	11
Use of Youth Look-Back Surcharge (90% grants).....	---	---	---	---	---	7	---	8	1	4	5	7	26
Potential Increase in Federal Medicaid Match.....	1	2	1	2	2	4	2	4	3	3	3	11	27
Total Potential Uses.....	1	7	7	9	10	21	9	20	12	13	14	54	122
Memoranda:													
Ad Valorem Equivalent of Net Payments.....	17%	13%	17%	19%	35%	22%	38%	25%	31%	32%			
Change in Total Cigarette Consumption.....	-7%	-6%	-8%	-9%	-16%	-10%	-17%	-11%	-14%	-14%			
Percentage Point Shortfall from Youth Target.....					30%	20%	50%	39%	48%	55%			

Potential Budgetary Impacts of Tobacco Agreement
With Uncapped Youth Surcharge of \$160 Million Per Percentage Point
(in billions of dollars)

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	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	98-03	98-08
Federal revenues:													
Industry payments:													
Up-front payment.....	10.0	---	---	---	---	---	---	---	---	---	---	10.0	10.0
Public health trust funds in bill.....	---	2.5	2.5	3.5	4.0	5.0	2.5	2.5	2.5	---	---	17.5	25.0
Base amounts in bill.....	---	6.0	7.0	8.0	10.0	10.0	12.5	12.5	12.5	15.0	15.0	41.0	108.5
Additional amounts to recover BBA97 credit.....	---	---	---	---	---	---	---	---	---	---	---	---	---
Additional amounts to recover excise tax losses.....	---	---	---	---	---	---	---	---	---	---	---	---	---
Adult sales volume adjustments.....	---	(0.7)	(0.9)	(1.4)	(2.0)	(3.1)	(2.4)	(3.4)	(2.7)	(3.1)	(3.2)	(8.2)	(22.9)
Credits for civil suits at cap.....	---	(1.4)	(1.7)	(1.9)	(2.3)	(2.1)	(2.8)	(2.6)	(2.7)	(3.2)	(3.1)	(9.3)	(23.6)
Inflation adjustments on above.....	---	0.2	0.4	0.8	1.2	1.6	1.9	2.1	2.6	2.7	3.0	4.2	16.4
Credit for BBA97 excise tax increase.....	---	---	(2.4)	(2.3)	(3.4)	(3.1)	(3.3)	(3.0)	(3.2)	(3.1)	(3.1)	(11.1)	(27.0)
Look-back surcharge.....	---	---	---	---	---	6.7	---	8.1	1.5	4.4	5.1	6.7	25.8
User fees for nonparticipants.....	---	---	---	---	---	---	---	---	---	---	---	---	---
Net penalties.....	---	---	---	---	---	---	---	---	---	---	---	---	---
Subtotal, industry payments.....	10.0	6.5	5.0	6.7	7.6	14.9	8.4	16.2	10.4	12.8	13.7	50.7	112.1
Tax offset at 25% (IBT).....	(2.5)	(1.6)	(1.2)	(1.7)	(1.9)	(3.7)	(2.1)	(4.0)	(2.6)	(3.2)	(3.4)	(12.7)	(28.0)
Corporate income tax on look-back surcharge.....	---	---	---	---	---	---	---	---	---	---	---	---	---
Teen excise tax.....	---	---	---	---	---	---	---	---	---	---	---	---	---
Reduction in tobacco excise taxes (non-PAYGO).....	---	(0.3)	(0.4)	(0.5)	(0.7)	(1.1)	(0.7)	(1.2)	(0.8)	(1.0)	(1.0)	(3.1)	(7.8)
Total, Federal revenues.....	7.5	4.5	3.3	4.5	5.0	10.1	5.6	10.9	7.0	8.6	9.2	35.0	76.3
Federal outlays:													
Public health trust funds in bill.....	---	2.6	2.7	3.8	4.5	5.8	3.0	3.1	3.2	---	---	19.4	28.6
HHS direct programs and grants to States.....	---	0.1	0.1	0.1	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.9	2.3
FDA direct enforcement and grants to States.....	---	0.3	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.4	1.6	3.5
Grants to States for ASSIST-type programs.....	---	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.5	1.3
Direct Federal R&D to discourage tobacco use.....	---	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.5	1.2
Payments to tobacco-sponsored events/teams.....	---	---	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.3	0.8
Public educ. campaign run by non-profit board.....	---	0.5	0.5	0.5	0.6	0.6	0.6	0.6	0.6	0.7	0.7	2.7	5.9
HHS payments for tobacco use cessation programs.....	---	1.0	1.1	1.1	1.1	1.7	1.8	1.8	1.9	2.0	2.0	6.0	15.5
Spending of look-back surcharge (90% grants).....	---	---	---	---	---	6.7	---	8.1	1.5	4.4	5.1	6.7	25.8
Subtotal, specified spending in bill.....	---	4.7	5.0	6.2	7.1	15.8	6.4	14.6	8.2	8.1	8.9	38.8	84.9
Unspecified residual to reach total payments.....	10.0	1.8	(0.0)	0.5	0.5	(0.9)	2.1	1.5	2.2	4.6	4.8	11.9	27.2
Total, Federal outlays, excl. debt Service.....	10.0	6.5	5.0	6.7	7.6	14.9	8.4	16.2	10.4	12.8	13.7	50.7	112.1
Federal deficit:													
Revenues (deficit effect).....	(7.5)	(4.5)	(3.3)	(4.5)	(5.0)	(10.1)	(5.6)	(10.9)	(7.0)	(8.6)	(9.2)	(35.0)	(76.3)
Programmatic outlays.....	10.0	6.5	5.0	6.7	7.6	14.9	8.4	16.2	10.4	12.8	13.7	50.7	112.1
Debt service.....	0.1	0.2	0.3	0.4	0.5	0.7	0.9	1.1	1.3	1.5	1.8	2.1	8.6
Federal deficit.....	2.6	2.2	1.9	2.6	3.1	5.6	3.7	6.3	4.7	5.7	6.2	17.8	44.5
MEMORANDUM: PAYGO budget effects:													
Revenues (deficit effect).....	(7.5)	(4.9)	(3.7)	(5.0)	(5.7)	(11.2)	(6.3)	(12.1)	(7.8)	(9.6)	(10.2)	(38.0)	(84.1)
Outlays.....	10.0	6.5	5.0	6.7	7.6	14.9	8.4	16.2	10.4	12.8	13.7	50.7	112.1
Total PAYGO deficit effect.....	2.5	1.6	1.2	1.7	1.9	3.7	2.1	4.0	2.6	3.2	3.4	12.7	28.0
ADDENDA:													
Available (residual) spending if held to PAYGO neutrality	7.5	0.2	(1.2)	(1.2)	(1.4)	(4.6)	(0.0)	(2.5)	(0.4)	1.5	1.4	(0.7)	(0.8)
Available (residual) spending if held to budget neutrality..	7.5	(0.1)	(1.6)	(1.7)	(2.1)	(5.7)	(0.8)	(3.7)	(1.2)	0.5	0.4	(3.8)	(8.6)
Deficit impact of higher CPI (COLAs and indexation).....	---	0.5	1.5	2.5	3.4	3.9	4.2	4.4	4.5	4.6	4.6	11.9	34.3
Potential increase in Federal matching grants(lower end)	0.8	0.9	(0.0)	0.2	0.2	(0.4)	1.0	0.8	1.1	2.3	2.4	1.7	9.3
Potential increase in Federal matching grants(upper end)	1.0	1.6	1.2	1.7	1.9	3.7	2.1	4.0	2.6	3.2	3.4	11.2	26.5
Reduction in current law State excise tax revenues.....	---	(0.6)	(0.5)	(0.7)	(0.8)	(1.4)	(0.9)	(1.6)	(1.1)	(1.4)	(1.5)	(4.1)	(10.6)

See Footnotes Next Page.

1. Reduction in tobacco volume is assumed to result solely from price increases due to passthrough of industry payments.
Access restrictions, public education, and cessation programs are assumed to have no additional effect.
2. Civil liability settlements are assumed to be at cap (33% of industry basic payments). Cap is assumed to be a single 33% cap for suits based on past and future conduct.
3. Corporate income tax rate of 35% is assumed in scenarios where surcharge payments are nondeductible.
4. No manufacturers are assumed to qualify for 75% good faith surcharge abatement.
5. All manufacturers are assumed to participate in the settlement.
6. All manufacturers are assumed to meet compliance plan and corporate culture requirements.
7. Amounts are assumed to increase for inflation as follows: (a) industry payments increase for inflation beginning in 1999;
(b) outlays increase for inflation beginning in 1999; (c) surcharge amount and cap increase for inflation beginning in 1997.
8. All industry payments are assumed to score as Federal Indirect Business Taxes (excise tax receipts).
As Indirect Business Taxes, industry payments are subject to a 25% income offset (BEA convention).
9. All payments are assumed to be spent as Federal outlays.
10. Industry payments are reduced to provide a credit for excise tax increases enacted as part of BBA '97.
11. States could use some portion of increased funds to increase matched grant spending, thereby generating a Federal match.
12. CPI effects shown as memorandum only because they at least partially overlap with the 25% income offset.

SUMMARY OF BUDGETARY EFFECTS OF PROPOSED SETTLEMENT
WITH UNCAPPED YOUTH SURCHARGE OF \$160M PER PERCENTAGE POINT AND 30% NONPRICE EFFECT
(In billions of dollars)

09/03/97

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	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	98-03	98-08
RECEIPTS													
Base Payment (inc. trust and up-front payment).....	10	9	10	12	14	15	15	15	15	15	15	69	144
Payments to Recoup Excise Tax Credit and/or Losses..	---	---	---	---	---	---	---	---	---	---	---	---	---
Adult Sales Volume Adjustment.....	---	(1)	(1)	(1)	(2)	(2)	(2)	(3)	(3)	(3)	(3)	(7)	(20)
Credit for Personal Compensation Claims.....	---	(1)	(2)	(2)	(2)	(2)	(3)	(3)	(3)	(3)	(3)	(10)	(24)
Inflation Adjustment.....	---	0	0	1	1	2	2	2	3	3	3	4	17
Credit for BBA Excise Taxes.....	---	---	(2)	(2)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(11)	(27)
Look-Back Surcharge for Youth Consumption.....	---	---	---	---	---	0	---	2	1	1	4	0	8
Net Industry Settlement Payments.....	10	7	5	7	8	9	9	11	10	10	12	45	97
Tax Offsets													
Indirect Business Tax Offset.....	(3)	(2)	(1)	(2)	(2)	(2)	(2)	(3)	(3)	(2)	(3)	(11)	(24)
Corporate Income Tax on Look-Back Surcharge.....	---	---	---	---	---	---	---	---	---	---	---	---	---
Youth Excise Tax Trigger.....	---	---	---	---	---	---	---	---	---	---	---	---	---
Reduction in Existing Federal Excise Taxes.....	---	(0)	(0)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(3)	(7)
Total Federal Tax Offsets.....	(3)	(2)	(2)	(2)	(3)	(3)	(3)	(4)	(3)	(3)	(4)	(14)	(31)
Net Additional Receipts to US Government.....	8	5	3	5	5	6	6	7	7	7	8	31	66
POTENTIAL USES/CHANGES													
State Attorneys General Proposals, Total.....	---	5	5	6	7	9	6	7	7	4	4	32	59
Offset Reduction in State Excise Taxes.....	---	1	1	1	1	1	1	1	1	1	1	4	9
Use of Youth Look-Back Surcharge (90% grants).....	---	---	---	---	---	0	---	2	1	1	4	0	8
Potential Increase in Federal Medicaid Match.....	1	2	1	2	2	2	2	3	3	2	3	10	23
Total Potential Uses.....	1	7	7	9	10	13	9	13	11	8	12	46	99
Memoranda:													
Ad Valorem Equivalent of Net Payments.....	17%	13%	17%	20%	22%	22%	26%	25%	25%	30%			
Change in Total Cigarette Consumption.....	-7%	-6%	-8%	-9%	-10%	-10%	-12%	-11%	-11%	-13%			
Percentage Point Shortfall from Youth Target.....						1%	-6%	14%	12%	13%	23%		

Potential Budgetary Impacts of Tobacco Agreement
With Uncapped Youth Surcharge of \$160M Per Percentage Point and 30% Nonprice Effect
(in billions of dollars)

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	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	98-03	98-08
Federal revenues:													
Industry payments:													
Up-front payment.....	10.0	---	---	---	---	---	---	---	---	---	---	10.0	10.0
Public health trust funds in bill.....	---	2.5	2.5	3.5	4.0	5.0	2.5	2.5	2.5	---	---	17.5	25.0
Base amounts in bill.....	---	6.0	7.0	8.0	10.0	10.0	12.5	12.5	12.5	15.0	15.0	41.0	108.5
Additional amounts to recover BBA97 credit.....	---	---	---	---	---	---	---	---	---	---	---	---	---
Additional amounts to recover excise tax losses.....	---	---	---	---	---	---	---	---	---	---	---	---	---
Adult sales volume adjustments.....	---	(0.7)	(0.9)	(1.3)	(1.9)	(2.3)	(2.3)	(2.6)	(2.5)	(2.6)	(2.9)	(7.1)	(20.0)
Credits for civil suits at cap.....	---	(1.5)	(1.7)	(1.9)	(2.3)	(2.2)	(2.8)	(2.7)	(2.7)	(3.3)	(3.2)	(9.5)	(24.3)
Inflation adjustments on above.....	---	0.2	0.4	0.8	1.2	1.7	1.9	2.2	2.6	2.8	3.1	4.3	16.9
Credit for BBA97 excise tax increase.....	---	---	(2.4)	(2.3)	(3.4)	(3.3)	(3.3)	(3.2)	(3.2)	(3.2)	(3.1)	(11.3)	(27.5)
Look-back surcharge.....	---	---	---	---	---	0.2	---	2.1	1.1	1.1	3.6	0.2	8.2
User fees for nonparticipants.....	---	---	---	---	---	---	---	---	---	---	---	---	---
Net penalties.....	---	---	---	---	---	---	---	---	---	---	---	---	---
Subtotal, industry payments.....	10.0	6.5	5.0	6.8	7.7	9.1	8.5	10.8	10.1	9.8	12.5	45.0	96.8
Tax offset at 25% (IBT).....	(2.5)	(1.6)	(1.2)	(1.7)	(1.9)	(2.3)	(2.1)	(2.7)	(2.5)	(2.5)	(3.1)	(11.3)	(24.2)
Corporate income tax on look-back surcharge.....	---	---	---	---	---	---	---	---	---	---	---	---	---
Teen excise tax.....	---	---	---	---	---	---	---	---	---	---	---	---	---
Reduction in tobacco excise taxes (non-PAYGO).....	---	(0.3)	(0.4)	(0.5)	(0.7)	(0.7)	(0.7)	(0.9)	(0.8)	(0.8)	(0.9)	(2.7)	(6.8)
Total, Federal revenues.....	7.5	4.5	3.3	4.6	5.1	6.1	5.7	7.3	6.8	6.6	8.4	31.1	65.8
Federal outlays:													
Public health trust funds in bill.....	---	2.6	2.7	3.8	4.5	5.8	3.0	3.1	3.2	---	---	19.4	28.6
HHS direct programs and grants to States.....	---	0.1	0.1	0.1	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.9	2.3
FDA direct enforcement and grants to States.....	---	0.3	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.4	1.6	3.5
Grants to States for ASSIST-type programs.....	---	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.5	1.3
Direct Federal R&D to discourage tobacco use.....	---	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.5	1.2
Payments to tobacco-sponsored events/teams.....	---	---	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.3	0.8
Public educ. campaign run by non-profit board.....	---	0.5	0.5	0.5	0.6	0.6	0.6	0.6	0.6	0.7	0.7	2.7	5.9
HHS payments for tobacco use cessation programs.....	---	1.0	1.1	1.1	1.1	1.7	1.8	1.8	1.9	2.0	2.0	6.0	15.5
Spending of look-back surcharge (90% grants).....	---	---	---	---	---	0.2	---	2.1	1.1	1.1	3.6	0.2	8.2
Subtotal, specified spending in bill.....	---	4.7	5.0	6.2	7.1	9.3	6.4	8.7	7.8	4.8	7.4	32.3	67.4
Unspecified residual to reach total payments.....	10.0	1.8	0.0	0.5	0.5	(0.2)	2.2	2.1	2.3	5.0	5.0	12.8	29.4
Total, Federal outlays, excl. debt Service.....	10.0	6.5	5.0	6.8	7.7	9.1	8.5	10.8	10.1	9.8	12.5	45.0	96.8
Federal deficit:													
Revenues (deficit effect).....	(7.5)	(4.5)	(3.3)	(4.6)	(5.1)	(6.1)	(5.7)	(7.3)	(6.8)	(6.6)	(8.4)	(31.1)	(65.8)
Programmatic outlays.....	10.0	6.5	5.0	6.8	7.7	9.1	8.5	10.8	10.1	9.8	12.5	45.0	96.8
Debt service.....	0.1	0.2	0.3	0.4	0.5	0.7	0.8	1.0	1.2	1.4	1.7	2.1	8.3
Federal deficit.....	2.6	2.2	1.9	2.6	3.1	3.7	3.7	4.6	4.6	4.7	5.7	16.0	39.3
MEMORANDUM: PAYGO budget effects:													
Revenues (deficit effect).....	(7.5)	(4.9)	(3.7)	(5.1)	(5.7)	(6.8)	(6.4)	(8.1)	(7.6)	(7.4)	(9.3)	(33.8)	(72.6)
Outlays.....	10.0	6.5	5.0	6.8	7.7	9.1	8.5	10.8	10.1	9.8	12.5	45.0	96.8
Total PAYGO deficit effect	2.5	1.6	1.2	1.7	1.9	2.3	2.1	2.7	2.5	2.5	3.1	11.3	24.2
ADDENDA:													
Available (residual) spending if held to PAYGO neutrality	7.5	0.2	(1.2)	(1.1)	(1.4)	(2.5)	0.0	(0.6)	(0.2)	2.6	1.9	1.5	5.2
Available (residual) spending if held to budget neutrality..	7.5	(0.1)	(1.6)	(1.7)	(2.0)	(3.2)	(0.7)	(1.4)	(1.0)	1.7	1.0	(1.2)	(1.6)
Deficit impact of higher CPI (COLAs and indexation).....	---	0.5	1.5	2.5	3.4	3.9	4.2	4.4	4.5	4.6	4.6	11.9	34.3
Potential increase in Federal matching grants(lower end)	0.8	0.9	0.0	0.3	0.3	(0.1)	1.1	1.1	1.2	2.5	2.5	2.1	10.5
Potential increase in Federal matching grants(upper end)	1.0	1.6	1.2	1.7	1.9	2.3	2.1	2.7	2.5	2.5	3.1	9.8	22.7
Reduction in current law State excise tax revenues.....	---	(0.6)	(0.5)	(0.7)	(0.8)	(0.9)	(0.9)	(1.1)	(1.1)	(1.1)	(1.4)	(3.6)	(9.3)

See Footnotes Next Page.

1. Reduction in tobacco volume is assumed to result solely from price increases due to passthrough of industry payments.
Access restrictions, public education, and cessation programs are assumed to have no additional effect.
2. Civil liability settlements are assumed to be at cap (33% of industry basic payments). Cap is assumed to be a single 33% cap for suits based on past and future conduct.
3. Corporate income tax rate of 35% is assumed in scenarios where surcharge payments are nondeductible.
4. No manufacturers are assumed to qualify for 75% good faith surcharge abatement.
5. All manufacturers are assumed to participate in the settlement.
6. All manufacturers are assumed to meet compliance plan and corporate culture requirements.
7. Amounts are assumed to increase for inflation as follows: (a) industry payments increase for inflation beginning in 1999;
(b) outlays increase for inflation beginning in 1999; (c) surcharge amount and cap increase for inflation beginning in 1997.
8. All industry payments are assumed to score as Federal Indirect Business Taxes (excise tax receipts).
As Indirect Business Taxes, industry payments are subject to a 25% income offset (BEA convention).
9. All payments are assumed to be spent as Federal outlays.
10. Industry payments are reduced to provide a credit for excise tax increases enacted as part of BBA '97.
11. States could use some portion of increased funds to increase matched grant spending, thereby generating a Federal match.
12. CPI effects shown as memorandum only because they at least partially overlap with the 25% income offset.

SUMMARY OF BUDGETARY EFFECTS OF PROPOSED SETTLEMENT WITH UNCAPPED NONDEDUCTIBLE YOUTH SURCHARGE

(In billions of dollars)

09/03/97

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	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	98-03	98-08
RECEIPTS													
Base Payment (inc. trust and up-front payment).....	10	9	10	12	14	15	15	15	15	15	15	69	144
Payments to Recoup Excise Tax Credit and/or Losses..	---	---	---	---	---	---	---	---	---	---	---	---	---
Adult Sales Volume Adjustment.....	---	(1)	(1)	(1)	(2)	(3)	(2)	(3)	(3)	(3)	(3)	(8)	(22)
Credit for Personal Compensation Claims.....	---	(1)	(2)	(2)	(2)	(2)	(3)	(3)	(3)	(3)	(3)	(9)	(24)
Inflation Adjustment.....	---	0	0	1	1	2	2	2	3	3	3	4	16
Credit for BBA Excise Taxes.....	---	---	(2)	(2)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(11)	(27)
Look-Back Surcharge for Youth Consumption.....	---	---	---	---	---	3	---	4	1	2	3	3	13
Net Industry Settlement Payments.....	10	7	5	7	8	12	8	12	10	10	11	47	100
Tax Offsets													
Indirect Business Tax Offset.....	(3)	(2)	(1)	(2)	(2)	(3)	(2)	(3)	(2)	(3)	(3)	(12)	(25)
Corporate Income Tax on Look-Back Surcharge.....	---	---	---	---	---	2	---	2	1	1	1	2	7
Youth Excise Tax Trigger.....	---	---	---	---	---	---	---	---	---	---	---	---	---
Reduction in Existing Federal Excise Taxes.....	---	(0)	(0)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(3)	(7)
Total Federal Tax Offsets.....	(3)	(2)	(2)	(2)	(3)	(2)	(3)	(2)	(3)	(2)	(2)	(13)	(25)
Net Additional Receipts to US Government.....	8	5	3	5	5	10	6	10	7	8	9	34	75
POTENTIAL USES/CHANGES													
State Attorneys General Proposals, Total.....	---	5	5	6	7	9	6	7	7	4	4	32	59
Offset Reduction in State Excise Taxes.....	---	1	1	1	1	1	1	1	1	1	1	4	10
Use of Youth Look-Back Surcharge (90% grants).....	---	---	---	---	---	3	---	4	1	2	3	3	13
Potential Increase in Federal Medicaid Match.....	1	2	1	2	2	3	2	3	2	3	3	10	24
Total Potential Uses.....	1	7	7	9	10	17	9	15	11	10	11	50	106
Memoranda:													
Ad Valorem Equivalent of Net Payments.....	17%	13%	17%	19%	32%	22%	35%	25%	28%	31%			
Change in Total Cigarette Consumption.....	-7%	-6%	-8%	-9%	-15%	-10%	-16%	-11%	-13%	-14%			
Percentage Point Shortfall from Youth Target.....						30%	22%	50%	41%	48%	56%		

**Potential Budgetary Impacts of Tobacco Agreement
With Uncapped Nondeductible Youth Surcharge**
(in billions of dollars)

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	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	98-03	98-08
Federal revenues:													
Industry payments:													
Up-front payment.....	10.0	---	---	---	---	---	---	---	---	---	---	10.0	10.0
Public health trust funds in bill.....	---	2.5	2.5	3.5	4.0	5.0	2.5	2.5	2.5	---	---	17.5	25.0
Base amounts in bill.....	---	6.0	7.0	8.0	10.0	10.0	12.5	12.5	12.5	15.0	15.0	41.0	108.5
Additional amounts to recover BBA97 credit.....	---	---	---	---	---	---	---	---	---	---	---	---	---
Additional amounts to recover excise tax losses.....	---	---	---	---	---	---	---	---	---	---	---	---	---
Adult sales volume adjustments.....	---	(0.7)	(0.9)	(1.4)	(2.0)	(3.0)	(2.4)	(3.2)	(2.7)	(2.9)	(3.1)	(8.0)	(22.3)
Credits for civil suits at cap.....	---	(1.4)	(1.7)	(1.9)	(2.3)	(2.1)	(2.8)	(2.6)	(2.7)	(3.2)	(3.1)	(9.4)	(23.8)
Inflation adjustments on above.....	---	0.2	0.4	0.8	1.2	1.6	1.9	2.1	2.6	2.7	3.0	4.2	16.5
Credit for BBA97 excise tax increase.....	---	---	(2.4)	(2.3)	(3.4)	(3.2)	(3.3)	(3.1)	(3.2)	(3.2)	(3.1)	(11.2)	(27.1)
Look-back surcharge.....	---	---	---	---	---	3.4	---	4.2	0.9	2.0	2.8	3.4	13.3
User fees for nonparticipants.....	---	---	---	---	---	---	---	---	---	---	---	---	---
Net penalties.....	---	---	---	---	---	---	---	---	---	---	---	---	---
Subtotal, industry payments.....	10.0	6.5	5.0	6.7	7.6	11.7	8.4	12.4	9.9	10.4	11.4	47.5	100.1
Tax offset at 25% (IBT).....	(2.5)	(1.6)	(1.2)	(1.7)	(1.9)	(2.9)	(2.1)	(3.1)	(2.5)	(2.6)	(2.9)	(11.9)	(25.0)
Corporate income tax on look-back surcharge.....	---	---	---	---	---	1.8	---	2.3	0.5	1.1	1.5	1.8	7.1
Teen excise tax.....	---	---	---	---	---	---	---	---	---	---	---	---	---
Reduction in tobacco excise taxes (non-PAYGO).....	---	(0.3)	(0.4)	(0.5)	(0.7)	(1.0)	(0.7)	(1.1)	(0.8)	(0.9)	(1.0)	(3.0)	(7.5)
Total, Federal revenues.....	7.5	4.5	3.3	4.5	5.0	9.6	5.6	10.5	7.1	8.0	9.1	34.5	74.7
Federal outlays:													
Public health trust funds in bill.....	---	2.6	2.7	3.8	4.5	5.8	3.0	3.1	3.2	---	---	19.4	28.6
HHS direct programs and grants to States.....	---	0.1	0.1	0.1	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.9	2.3
FDA direct enforcement and grants to States.....	---	0.3	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.4	1.6	3.5
Grants to States for ASSIST-type programs.....	---	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.5	1.3
Direct Federal R&D to discourage tobacco use.....	---	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.5	1.2
Payments to tobacco-sponsored events/teams.....	---	---	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.3	0.8
Public educ. campaign run by non-profit board.....	---	0.5	0.5	0.5	0.6	0.6	0.6	0.6	0.6	0.7	0.7	2.7	5.9
HHS payments for tobacco use cessation programs.....	---	1.0	1.1	1.1	1.1	1.7	1.8	1.8	1.9	2.0	2.0	6.0	15.5
Spending of look-back surcharge (90% grants).....	---	---	---	---	---	3.4	---	4.2	0.9	2.0	2.8	3.4	13.3
Subtotal, specified spending in bill.....	---	4.7	5.0	6.2	7.1	12.4	6.4	10.8	7.7	5.7	6.6	35.4	72.4
Unspecified residual to reach total payments.....	10.0	1.8	(0.0)	0.5	0.5	(0.7)	2.1	1.7	2.2	4.8	4.9	12.1	27.6
Total, Federal outlays, excl. debt Service.....	10.0	6.5	5.0	6.7	7.6	11.7	8.4	12.4	9.9	10.4	11.4	47.5	100.1
Federal deficit:													
Revenues (deficit effect).....	(7.5)	(4.5)	(3.3)	(4.5)	(5.0)	(9.6)	(5.6)	(10.5)	(7.1)	(8.0)	(9.1)	(34.5)	(74.7)
Programmatic outlays.....	10.0	6.5	5.0	6.7	7.6	11.7	8.4	12.4	9.9	10.4	11.4	47.5	100.1
Debt service.....	0.1	0.2	0.3	0.4	0.5	0.7	0.9	1.1	1.3	1.5	1.8	2.1	8.6
Federal deficit.....	2.6	2.2	1.9	2.6	3.1	2.8	3.7	3.0	4.1	4.0	4.1	15.1	34.0
MEMORANDUM: PAYGO budget effects:													
Revenues (deficit effect).....	(7.5)	(4.9)	(3.7)	(5.0)	(5.7)	(10.6)	(6.3)	(11.6)	(7.9)	(8.9)	(10.1)	(37.4)	(82.2)
Outlays.....	10.0	6.5	5.0	6.7	7.6	11.7	8.4	12.4	9.9	10.4	11.4	47.5	100.1
Total PAYGO deficit effect.....	2.5	1.6	1.2	1.7	1.9	1.1	2.1	0.8	2.0	1.5	1.4	10.1	17.9
ADDENDA:													
Available (residual) spending if held to PAYGO neutrality.....	7.5	0.2	(1.2)	(1.2)	(1.4)	(1.8)	(0.0)	0.8	0.2	3.2	3.5	2.0	9.7
Available (residual) spending if held to budget neutrality..	7.5	(0.1)	(1.6)	(1.7)	(2.1)	(2.9)	(0.8)	(0.3)	(0.6)	2.3	2.5	(1.0)	2.3
Deficit impact of higher CPI (COLAs and indexation).....	---	0.5	1.5	2.5	3.4	3.9	4.2	4.4	4.5	4.6	4.6	11.9	34.3
Potential increase in Federal matching grants(lower end)	0.8	0.9	(0.0)	0.2	0.2	(0.4)	1.0	0.8	1.1	2.4	2.4	1.8	9.6
Potential increase in Federal matching grants(upper end)	1.0	1.6	1.2	1.7	1.9	2.9	2.1	3.1	2.5	2.6	2.9	10.4	23.5
Reduction in current law State excise tax revenues.....	---	(0.6)	(0.5)	(0.7)	(0.8)	(1.3)	(0.9)	(1.5)	(1.1)	(1.3)	(1.4)	(4.0)	(10.1)

See Footnotes Next Page.

1. Reduction in tobacco volume is assumed to result solely from price increases due to passthrough of industry payments.
Access restrictions, public education, and cessation programs are assumed to have no additional effect.
2. Civil liability settlements are assumed to be at cap (33% of industry basic payments). Cap is assumed to be a single 33% cap for suits based on past and future conduct.
3. Corporate income tax rate of 35% is assumed in scenarios where surcharge payments are nondeductible.
4. No manufacturers are assumed to qualify for 75% good faith surcharge abatement.
5. All manufacturers are assumed to participate in the settlement.
6. All manufacturers are assumed to meet compliance plan and corporate culture requirements.
7. Amounts are assumed to increase for inflation as follows: (a) industry payments increase for inflation beginning in 1999;
(b) outlays increase for inflation beginning in 1999; (c) surcharge amount and cap increase for inflation beginning in 1997.
8. All industry payments are assumed to score as Federal Indirect Business Taxes (excise tax receipts).
As Indirect Business Taxes, industry payments are subject to a 25% income offset (BEA convention).
9. All payments are assumed to be spent as Federal outlays.
10. Industry payments are reduced to provide a credit for excise tax increases enacted as part of BBA '97.
11. States could use some portion of increased funds to increase matched grant spending, thereby generating a Federal match.
12. CPI effects shown as memorandum only because they at least partially overlap with the 25% income offset.

**SUMMARY OF BUDGETARY EFFECTS OF PROPOSED SETTLEMENT
WITH UNCAPPED NONDEDUCTIBLE YOUTH SURCHARGE AND 30% NONPRICE EFFECT**

(In billions of dollars)

09/03/97

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	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	98-03	98-08
RECEIPTS													
Base Payment (inc. trust and up-front payment).....	10	9	10	12	14	15	15	15	15	15	15	69	144
Payments to Recoup Excise Tax Credit and/or Losses.....	---	---	---	---	---	---	---	---	---	---	---	---	---
Adult Sales Volume Adjustment.....	---	(1)	(1)	(1)	(2)	(2)	(2)	(3)	(3)	(3)	(3)	(7)	(20)
Credit for Personal Compensation Claims.....	---	(1)	(2)	(2)	(2)	(2)	(3)	(3)	(3)	(3)	(3)	(10)	(24)
Inflation Adjustment.....	---	0	0	1	1	2	2	2	3	3	3	4	17
Credit for BBA Excise Taxes.....	---	---	(2)	(2)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(11)	(28)
Look-Back Surcharge for Youth Consumption.....	---	---	---	---	---	0	---	1	1	1	2	0	4
Net Industry Settlement Payments.....	10	7	5	7	8	9	9	10	10	9	11	45	93
Tax Offsets													
Indirect Business Tax Offset.....	(3)	(2)	(1)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(3)	(11)	(23)
Corporate Income Tax on Look-Back Surcharge.....	---	---	---	---	---	0	---	1	0	0	1	0	2
Youth Excise Tax Trigger.....	---	---	---	---	---	---	---	---	---	---	---	---	---
Reduction in Existing Federal Excise Taxes.....	---	(0)	(0)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(3)	(7)
Total Federal Tax Offsets.....	(3)	(2)	(2)	(2)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(14)	(28)
Net Additional Receipts to US Government.....	8	5	3	5	5	6	6	7	7	6	8	31	65
POTENTIAL USES/CHANGES													
State Attorneys General Proposals, Total.....	---	5	5	6	7	9	6	7	7	4	4	32	59
Offset Reduction in State Excise Taxes.....	---	1	1	1	1	1	1	1	1	1	1	4	9
Use of Youth Look-Back Surcharge (90% grants).....	---	---	---	---	---	0	---	1	1	1	2	0	4
Potential Increase in Federal Medicaid Match.....	1	2	1	2	2	2	2	2	2	2	3	10	22
Total Potential Uses.....	1	7	7	9	10	12	9	11	11	8	10	46	94
Memoranda:													
Ad Valorem Equivalent of Net Payments.....	17%	13%	17%	20%	22%	22%	26%	24%	24%	24%	28%		
Change in Total Cigarette Consumption.....	-7%	-6%	-8%	-9%	-10%	-10%	-12%	-11%	-11%	-11%	-13%		
Percentage Point Shortfall from Youth Target.....						1%	-6%	14%	12%	13%	24%		

Potential Budgetary Impacts of Tobacco Agreement
With Uncapped Nondeductible Youth Surcharge and 30% Nonprice Effect
(in billions of dollars)

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	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	98-03	98-08
Federal revenues:													
Industry payments:													
Up-front payment.....	10.0	---	---	---	---	---	---	---	---	---	---	10.0	10.0
Public health trust funds in bill.....	---	2.5	2.5	3.5	4.0	5.0	2.5	2.5	2.5	---	---	17.5	25.0
Base amounts in bill.....	---	6.0	7.0	8.0	10.0	10.0	12.5	12.5	12.5	15.0	15.0	41.0	108.5
Additional amounts to recover BBA97 credit.....	---	---	---	---	---	---	---	---	---	---	---	---	---
Additional amounts to recover excise tax losses.....	---	---	---	---	---	---	---	---	---	---	---	---	---
Adult sales volume adjustments.....	---	(0.7)	(0.9)	(1.3)	(1.9)	(2.2)	(2.3)	(2.5)	(2.5)	(2.6)	(2.8)	(7.1)	(19.8)
Credits for civil suits at cap.....	---	(1.5)	(1.7)	(1.9)	(2.3)	(2.2)	(2.8)	(2.7)	(2.7)	(3.3)	(3.2)	(9.5)	(24.3)
Inflation adjustments on above.....	---	0.2	0.4	0.8	1.2	1.7	1.9	2.2	2.6	2.8	3.1	4.3	16.9
Credit for BBA97 excise tax increase.....	---	---	(2.4)	(2.3)	(3.4)	(3.3)	(3.3)	(3.2)	(3.2)	(3.2)	(3.2)	(11.3)	(27.5)
Look-back surcharge.....	---	---	---	---	---	0.1	---	1.1	0.6	0.5	1.9	0.1	4.2
User fees for nonparticipants.....	---	---	---	---	---	---	---	---	---	---	---	---	---
Net penalties.....	---	---	---	---	---	---	---	---	---	---	---	---	---
Subtotal, industry payments.....	10.0	6.5	5.0	6.8	7.7	9.0	8.5	9.8	9.7	9.2	10.7	44.9	92.9
Tax offset at 25% (IBT).....	(2.5)	(1.6)	(1.2)	(1.7)	(1.9)	(2.2)	(2.1)	(2.4)	(2.4)	(2.3)	(2.7)	(11.2)	(23.2)
Corporate income tax on look-back surcharge.....	---	---	---	---	---	0.1	---	0.6	0.3	0.3	1.0	0.1	2.3
Teen excise tax.....	---	---	---	---	---	---	---	---	---	---	---	---	---
Reduction in tobacco excise taxes (non-PAYGO).....	---	(0.3)	(0.4)	(0.5)	(0.7)	(0.7)	(0.7)	(0.8)	(0.8)	(0.8)	(0.9)	(2.7)	(6.7)
Total, Federal revenues.....	7.5	4.5	3.3	4.6	5.1	6.1	5.7	7.1	6.8	6.4	8.2	31.1	65.2
Federal outlays:													
Public health trust funds in bill.....	---	2.6	2.7	3.8	4.5	5.8	3.0	3.1	3.2	---	---	19.4	28.6
HHS direct programs and grants to States.....	---	0.1	0.1	0.1	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.9	2.3
FDA direct enforcement and grants to States.....	---	0.3	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.4	1.6	3.5
Grants to States for ASSIST-type programs.....	---	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.5	1.3
Direct Federal R&D to discourage tobacco use.....	---	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.5	1.2
Payments to tobacco-sponsored events/teams.....	---	---	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.3	0.8
Public educ. campaign run by non-profit board.....	---	0.5	0.5	0.5	0.6	0.6	0.6	0.6	0.6	0.7	0.7	2.7	5.9
HHS payments for tobacco use cessation programs.....	---	1.0	1.1	1.1	1.1	1.7	1.8	1.8	1.9	2.0	2.0	6.0	15.5
Spending of look-back surcharge (90% grants).....	---	---	---	---	---	0.1	---	1.1	0.6	0.5	1.9	0.1	4.2
Subtotal, specified spending in bill.....	---	4.7	5.0	6.2	7.1	9.2	6.4	7.6	7.4	4.2	5.7	32.2	63.4
Unspecified residual to reach total payments.....	10.0	1.8	0.0	0.5	0.5	(0.2)	2.2	2.2	2.3	5.0	5.1	12.8	29.6
Total, Federal outlays, excl. debt Service.....	10.0	6.5	5.0	6.8	7.7	9.0	8.5	9.8	9.7	9.2	10.7	44.9	92.9
Federal deficit:													
Revenues (deficit effect).....	(7.5)	(4.5)	(3.3)	(4.6)	(5.1)	(6.1)	(5.7)	(7.1)	(6.8)	(6.4)	(8.2)	(31.1)	(65.2)
Programmatic outlays.....	10.0	6.5	5.0	6.8	7.7	9.0	8.5	9.8	9.7	9.2	10.7	44.9	92.9
Debt service.....	0.1	0.2	0.3	0.4	0.5	0.7	0.8	1.0	1.2	1.4	1.6	2.1	8.0
Federal deficit.....	2.6	2.2	1.9	2.6	3.1	3.6	3.7	3.7	4.1	4.2	4.2	15.9	35.7
MEMORANDUM: PAYGO budget effects:													
Revenues (deficit effect).....	(7.5)	(4.9)	(3.7)	(5.1)	(5.7)	(6.8)	(6.4)	(7.9)	(7.6)	(7.2)	(9.1)	(33.8)	(72.0)
Outlays.....	10.0	6.5	5.0	6.8	7.7	9.0	8.5	9.8	9.7	9.2	10.7	44.9	92.9
Total PAYGO deficit effect.....	2.5	1.6	1.2	1.7	1.9	2.2	2.1	1.9	2.1	2.0	1.7	11.2	21.0
ADDENDA:													
Available (residual) spending if held to PAYGO neutrality.....	7.5	0.2	(1.2)	(1.1)	(1.4)	(2.4)	0.0	0.3	0.3	3.0	3.4	1.6	8.6
Available (residual) spending if held to budget neutrality..	7.5	(0.1)	(1.6)	(1.7)	(2.0)	(3.1)	(0.7)	(0.5)	(0.5)	2.2	2.5	(1.1)	1.9
Deficit impact of higher CPI (COLAs and indexation).....	---	0.5	1.5	2.5	3.4	3.9	4.2	4.4	4.5	4.6	4.6	11.9	34.3
Potential increase in Federal matching grants(lower end)	0.8	0.9	0.0	0.3	0.3	(0.1)	1.1	1.1	1.2	2.5	2.5	2.1	10.5
Potential increase in Federal matching grants(upper end)	1.0	1.6	1.2	1.7	1.9	2.2	2.1	2.4	2.4	2.3	2.7	9.7	21.7
Reduction in current law State excise tax revenues.....	---	(0.6)	(0.5)	(0.7)	(0.8)	(0.9)	(0.9)	(1.1)	(1.1)	(1.1)	(1.3)	(3.6)	(9.1)

See Footnotes Next Page.

1. Reduction in tobacco volume is assumed to result solely from price increases due to passthrough of industry payments.
Access restrictions, public education, and cessation programs are assumed to have no additional effect.
2. Civil liability settlements are assumed to be at cap (33% of industry basic payments). Cap is assumed to be a single 33% cap for suits based on past and future conduct.
3. Corporate income tax rate of 35% is assumed in scenarios where surcharge payments are nondeductible.
4. No manufacturers are assumed to qualify for 75% good faith surcharge abatement.
5. All manufacturers are assumed to participate in the settlement.
6. All manufacturers are assumed to meet compliance plan and corporate culture requirements.
7. Amounts are assumed to increase for inflation as follows: (a) industry payments increase for inflation beginning in 1999;
(b) outlays increase for inflation beginning in 1999; (c) surcharge amount and cap increase for inflation beginning in 1997.
8. All industry payments are assumed to score as Federal Indirect Business Taxes (excise tax receipts).
As Indirect Business Taxes, industry payments are subject to a 25% income offset (BEA convention).
9. All payments are assumed to be spent as Federal outlays.
10. Industry payments are reduced to provide a credit for excise tax increases enacted as part of BBA '97.
11. States could use some portion of increased funds to increase matched grant spending, thereby generating a Federal match.
12. CPI effects shown as memorandum only because they at least partially overlap with the 25% income offset.

SUMMARY OF BUDGETARY EFFECTS OF PROPOSED SETTLEMENT
WITH \$160 MILLION NONDEDUCTIBLE SURCHARGE ABOVE TEN PERCENTAGE POINT SHORTFALL
(In billions of dollars)

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	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	98-03	98-08
RECEIPTS													
Base Payment (inc. trust and up-front payment).....	10	9	10	12	14	15	15	15	15	15	15	69	144
Payments to Recoup Excise Tax Credit and/or Losses..	---	---	---	---	---	---	---	---	---	---	---	---	---
Adult Sales Volume Adjustment.....	---	(1)	(1)	(1)	(2)	(3)	(2)	(4)	(3)	(3)	(3)	(8)	(24)
Credit for Personal Compensation Claims.....	---	(1)	(2)	(2)	(2)	(2)	(3)	(2)	(3)	(3)	(3)	(9)	(23)
Inflation Adjustment.....	---	0	0	1	1	2	2	2	3	3	3	4	16
Credit for BBA Excise Taxes.....	---	---	(2)	(2)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(11)	(27)
Look-Back Surcharge for Youth Consumption.....	---	---	---	---	---	6	---	7	1	5	4	6	22
Net Industry Settlement Payments.....	10	7	5	7	8	14	8	15	10	13	12	49	108
Tax Offsets													
Indirect Business Tax Offset.....	(3)	(2)	(1)	(2)	(2)	(3)	(2)	(4)	(2)	(3)	(3)	(12)	(27)
Corporate Income Tax on Look-Back Surcharge.....	---	---	---	---	---	2	---	3	0	2	2	2	10
Youth Excise Tax Trigger.....	---	---	---	---	---	---	---	---	---	---	---	---	---
Reduction in Existing Federal Excise Taxes.....	---	(0)	(0)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(3)	(8)
Total Federal Tax Offsets.....	(3)	(2)	(2)	(2)	(3)	(2)	(3)	(2)	(3)	(2)	(2)	(13)	(25)
Net Additional Receipts to US Government.....	8	5	3	5	5	11	6	13	7	11	10	36	83
POTENTIAL USES/CHANGES													
State Attorneys General Proposals, Total.....	---	5	5	6	7	9	6	7	7	4	4	32	59
Offset Reduction in State Excise Taxes.....	---	1	1	1	1	2	1	2	1	2	1	4	11
Use of Youth Look-Back Surcharge (90% grants).....	---	---	---	---	---	1	---	1	0	1	0	1	3
Potential Increase in Federal Medicaid Match.....	1	2	1	2	2	3	2	4	2	3	3	11	25
Total Potential Uses.....	1	7	7	9	10	15	9	13	10	9	9	48	99
Memoranda:													
Ad Valorem Equivalent of Net Payments.....	17%	13%	17%	19%	38%	22%	43%	24%	36%	33%			
Change in Total Cigarette Consumption.....	-7%	-6%	-8%	-9%	-17%	-10%	-19%	-11%	-16%	-14%			
Percentage Point Shortfall from Youth Target.....						30%	18%	50%	36%	49%	51%		

Potential Budgetary Impacts of Tobacco Agreement
With \$160 Million Nondeductible Surcharge Above Ten Percentage Point Shortfall
(in billions of dollars)

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	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	98-03	98-08
Federal revenues:													
Industry payments:													
Up-front payment.....	10.0	---	---	---	---	---	---	---	---	---	---	10.0	10.0
Public health trust funds in bill.....	---	2.5	2.5	3.5	4.0	5.0	2.5	2.5	2.5	---	---	17.5	25.0
Base amounts in bill.....	---	6.0	7.0	8.0	10.0	10.0	12.5	12.5	12.5	15.0	15.0	41.0	108.5
Additional amounts to recover BBA97 credit.....	---	---	---	---	---	---	---	---	---	---	---	---	---
Additional amounts to recover excise tax losses.....	---	---	---	---	---	---	---	---	---	---	---	---	---
Adult sales volume adjustments.....	---	(0.7)	(0.9)	(1.4)	(2.0)	(3.3)	(2.4)	(3.7)	(2.6)	(3.3)	(3.2)	(8.4)	(23.6)
Credits for civil suits at cap.....	---	(1.4)	(1.7)	(1.9)	(2.3)	(2.1)	(2.8)	(2.5)	(2.7)	(3.1)	(3.1)	(9.3)	(23.5)
Inflation adjustments on above.....	---	0.2	0.4	0.8	1.2	1.5	1.9	2.0	2.6	2.6	3.0	4.1	16.2
Credit for BBA97 excise tax increase.....	---	---	(2.4)	(2.3)	(3.4)	(3.1)	(3.3)	(3.0)	(3.2)	(3.1)	(3.1)	(11.1)	(26.8)
Look-back surcharge.....	---	---	---	---	---	5.6	---	7.0	0.7	4.7	3.6	5.6	21.7
User fees for nonparticipants.....	---	---	---	---	---	---	---	---	---	---	---	---	---
Net penalties.....	---	---	---	---	---	---	---	---	---	---	---	---	---
Subtotal, industry payments.....	10.0	6.5	5.0	6.7	7.6	13.7	8.4	14.9	9.6	12.9	12.2	49.5	107.6
Tax offset at 25% (IBT).....	(2.5)	(1.6)	(1.2)	(1.7)	(1.9)	(3.4)	(2.1)	(3.7)	(2.4)	(3.2)	(3.1)	(12.4)	(26.9)
Corporate income tax on look-back surcharge.....	---	---	---	---	---	2.4	---	3.3	0.3	2.3	1.7	2.4	10.1
Ten excise tax.....	---	---	---	---	---	---	---	---	---	---	---	---	---
Reduction in tobacco excise taxes (non-PAYGO).....	---	(0.3)	(0.4)	(0.5)	(0.7)	(1.2)	(0.7)	(1.3)	(0.8)	(1.1)	(1.0)	(3.1)	(8.2)
Total, Federal revenues.....	7.5	4.5	3.3	4.5	5.0	11.5	5.6	13.2	6.7	10.8	9.9	36.4	82.6
Federal outlays:													
Public health trust funds in bill.....	---	2.6	2.7	3.8	4.5	5.8	3.0	3.1	3.2	---	---	19.4	28.6
HHS direct programs and grants to States.....	---	0.1	0.1	0.1	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.9	2.3
FDA direct enforcement and grants to States.....	---	0.3	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.4	1.6	3.5
Grants to States for ASSIST-type programs.....	---	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.5	1.3
Direct Federal R&D to discourage tobacco use.....	---	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.5	1.2
Payments to tobacco-sponsored events/teams.....	---	---	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.3	0.8
Public educ. campaign run by non-profit board.....	---	0.5	0.5	0.5	0.6	0.6	0.6	0.6	0.6	0.7	0.7	2.7	5.9
HHS payments for tobacco use cessation programs.....	---	1.0	1.1	1.1	1.1	1.7	1.8	1.8	1.9	2.0	2.0	6.0	15.5
Spending of look-back surcharge (90% grants).....	---	---	---	---	---	1.1	---	0.8	0.1	0.5	0.4	1.1	2.9
Subtotal, specified spending in bill.....	---	4.7	5.0	6.2	7.1	10.2	6.4	7.3	6.9	4.2	4.2	33.2	62.1
Unspecified residual to reach total payments.....	10.0	1.8	(0.0)	0.5	0.5	3.6	2.1	7.6	2.8	8.7	8.0	16.3	45.4
Total, Federal outlays, excl. debt Service.....	10.0	6.5	5.0	6.7	7.6	13.7	8.4	14.9	9.6	12.9	12.2	49.5	107.6
Federal deficit:													
Revenues (deficit effect).....	(7.5)	(4.5)	(3.3)	(4.5)	(5.0)	(11.5)	(5.6)	(13.2)	(6.7)	(10.8)	(9.9)	(36.4)	(82.6)
Programmatic outlays.....	10.0	6.5	5.0	6.7	7.6	13.7	8.4	14.9	9.6	12.9	12.2	49.5	107.6
Debt service.....	0.1	0.2	0.3	0.4	0.5	0.6	0.8	0.9	1.1	1.3	1.4	2.1	7.6
Federal deficit.....	2.6	2.2	1.9	2.6	3.1	2.9	3.6	2.7	4.0	3.3	3.8	15.2	32.5
MEMORANDUM: PAYGO budget effects:													
Revenues (deficit effect).....	(7.5)	(4.9)	(3.7)	(5.0)	(5.7)	(12.7)	(6.3)	(14.5)	(7.5)	(11.9)	(10.9)	(39.6)	(90.7)
Outlays.....	10.0	6.5	5.0	6.7	7.6	13.7	8.4	14.9	9.6	12.9	12.2	49.5	107.6
Total PAYGO deficit effect.....	2.5	1.6	1.2	1.7	1.9	1.0	2.1	0.4	2.1	1.0	1.3	9.9	16.8
ADDENDA:													
Available (residual) spending if held to PAYGO neutrality.....	7.5	0.2	(1.2)	(1.2)	(1.4)	2.6	(0.0)	7.2	0.7	7.7	6.7	6.4	28.6
Available (residual) spending if held to budget neutrality..	7.5	(0.1)	(1.6)	(1.7)	(2.1)	1.3	(0.8)	5.8	(0.1)	6.6	5.7	3.2	20.5
Deficit impact of higher CPI (COLAs and indexation).....	---	0.5	1.5	2.5	3.4	3.9	4.2	4.4	4.5	4.6	4.6	11.9	34.3
Potential increase in Federal matching grants(lower end)	0.8	0.9	(0.0)	0.2	0.2	1.8	1.0	3.8	1.4	4.3	4.0	3.9	18.5
Potential increase in Federal matching grants(upper end)	1.0	1.6	1.2	1.7	1.9	3.4	2.1	3.7	2.4	3.2	3.1	10.9	25.4
Reduction in current law State excise tax revenues.....	---	(0.6)	(0.5)	(0.7)	(0.8)	(1.5)	(0.9)	(1.8)	(1.1)	(1.6)	(1.5)	(4.2)	(11.1)

See Footnotes Next Page.

1. Reduction in tobacco volume is assumed to result solely from price increases due to passthrough of industry payments.
Access restrictions, public education, and cessation programs are assumed to have no additional effect.
2. Civil liability settlements are assumed to be at cap (33% of industry basic payments). Cap is assumed to be a single 33% cap for suits based on past and future conduct.
3. Corporate income tax rate of 35% is assumed in scenarios where surcharge payments are nondeductible.
4. No manufacturers are assumed to qualify for 75% good faith surcharge abatement.
5. All manufacturers are assumed to participate in the settlement.
6. All manufacturers are assumed to meet compliance plan and corporate culture requirements.
7. Amounts are assumed to increase for inflation as follows: (a) industry payments increase for inflation beginning in 1999;
(b) outlays increase for inflation beginning in 1999; (c) surcharge amount and cap increase for inflation beginning in 1997.
8. All industry payments are assumed to score as Federal Indirect Business Taxes (excise tax receipts).
As Indirect Business Taxes, industry payments are subject to a 25% income offset (BEA convention).
9. All payments are assumed to be spent as Federal outlays.
10. Industry payments are reduced to provide a credit for excise tax increases enacted as part of BBA '97.
11. States could use some portion of increased funds to increase matched grant spending, thereby generating a Federal match.
12. CPI effects shown as memorandum only because they at least partially overlap with the 25% income offset.

**SUMMARY OF BUDGETARY EFFECTS OF PROPOSED SETTLEMENT
WITH TWO TIER NONDEDUCTIBLE SURCHARGE AND 30% NONPRICE EFFECT**
(In billions of dollars)

09/03/97

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	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	98-03	98-08
RECEIPTS													
Base Payment (inc. trust and up-front payment).....	10	9	10	12	14	15	15	15	15	15	15	69	144
Payments to Recoup Excise Tax Credit and/or Losses..	---	---	---	---	---	---	---	---	---	---	---	---	---
Adult Sales Volume Adjustment.....	---	(1)	(1)	(1)	(2)	(2)	(2)	(3)	(2)	(3)	(3)	(7)	(20)
Credit for Personal Compensation Claims.....	---	(1)	(2)	(2)	(2)	(2)	(3)	(3)	(3)	(3)	(3)	(10)	(24)
Inflation Adjustment.....	---	0	0	1	1	2	2	2	3	3	3	4	17
Credit for BBA Excise Taxes.....	---	---	(2)	(2)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(11)	(27)
Look-Back Surcharge for Youth Consumption.....	---	---	---	---	---	0	---	1	1	1	3	0	6
Net Industry Settlement Payments.....	10	7	5	7	8	9	9	10	10	9	12	45	94
Tax Offsets													
Indirect Business Tax Offset.....	(3)	(2)	(1)	(2)	(2)	(2)	(2)	(3)	(2)	(2)	(3)	(11)	(24)
Corporate Income Tax on Look-Back Surcharge.....	---	---	---	---	---	---	---	0	0	0	1	---	2
Youth Excise Tax Trigger.....	---	---	---	---	---	---	---	---	---	---	---	---	---
Reduction in Existing Federal Excise Taxes.....	---	(0)	(0)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(3)	(7)
Total Federal Tax Offsets.....	(3)	(2)	(2)	(2)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(14)	(29)
Net Additional Receipts to US Government.....	8	5	3	5	5	6	6	7	7	6	9	31	66
POTENTIAL USES/CHANGES													
State Attorneys General Proposals, Total.....	---	5	5	6	7	9	6	7	7	4	4	32	59
Offset Reduction in State Excise Taxes.....	---	1	1	1	1	1	1	1	1	1	1	4	9
Use of Youth Look-Back Surcharge (90% grants).....	---	---	---	---	---	0	---	1	0	0	1	0	3
Potential Increase in Federal Medicaid Match.....	1	2	1	2	2	2	2	3	2	2	3	10	22
Total Potential Uses.....	1	7	7	9	10	12	9	11	11	8	9	45	93
Memoranda:													
Ad Valorem Equivalent of Net Payments.....	17%	13%	17%	20%	22%	22%	26%	24%	25%	30%			
Change in Total Cigarette Consumption.....	-7%	-6%	-8%	-9%	-10%	-10%	-12%	-11%	-11%	-14%			
Percentage Point Shortfall from Youth Target.....						1%	-6%	14%	12%	14%	24%		

Potential Budgetary Impacts of Tobacco Agreement
With Two Tier Nondeductible Surcharge and 30% Nonprice Effect
(in billions of dollars)

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	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	98-03	98-08
Federal revenues:													
Industry payments:													
Up-front payment.....	10.0	---	---	---	---	---	---	---	---	---	---	10.0	10.0
Public health trust funds in bill.....	---	2.5	2.5	3.5	4.0	5.0	2.5	2.5	2.5	---	---	17.5	25.0
Base amounts in bill.....	---	6.0	7.0	8.0	10.0	10.0	12.5	12.5	12.5	15.0	15.0	41.0	108.5
Additional amounts to recover BBA97 credit.....	---	---	---	---	---	---	---	---	---	---	---	---	---
Additional amounts to recover excise tax losses.....	---	---	---	---	---	---	---	---	---	---	---	---	---
Adult sales volume adjustments.....	---	(0.7)	(0.9)	(1.3)	(1.9)	(2.2)	(2.3)	(2.5)	(2.5)	(2.6)	(2.9)	(7.1)	(19.9)
Credits for civil suits at cap.....	---	(1.5)	(1.7)	(1.9)	(2.3)	(2.2)	(2.8)	(2.7)	(2.8)	(3.3)	(3.2)	(9.5)	(24.3)
Inflation adjustments on above.....	---	0.2	0.4	0.8	1.2	1.7	1.9	2.2	2.6	2.8	3.1	4.3	16.9
Credit for BBA97 excise tax increase.....	---	---	(2.4)	(2.3)	(3.4)	(3.3)	(3.3)	(3.2)	(3.2)	(3.2)	(3.1)	(11.3)	(27.5)
Look-back surcharge.....	---	---	---	---	---	0.1	---	1.4	0.7	0.7	2.9	0.1	5.8
User fees for nonparticipants.....	---	---	---	---	---	---	---	---	---	---	---	---	---
Net penalties.....	---	---	---	---	---	---	---	---	---	---	---	---	---
Subtotal, industry payments.....	10.0	6.5	5.0	6.8	7.7	9.0	8.5	10.1	9.8	9.4	11.7	44.9	94.5
Tax offset at 25% (IBT).....	(2.5)	(1.6)	(1.2)	(1.7)	(1.9)	(2.2)	(2.1)	(2.5)	(2.4)	(2.4)	(2.9)	(11.2)	(23.6)
Corporate income tax on look-back surcharge.....	---	---	---	---	---	---	---	0.4	0.1	0.2	1.1	---	1.8
Teen excise tax.....	---	---	---	---	---	---	---	---	---	---	---	---	---
Reduction in tobacco excise taxes (non-PAYGO).....	---	(0.3)	(0.4)	(0.5)	(0.7)	(0.7)	(0.7)	(0.8)	(0.8)	(0.8)	(1.0)	(2.7)	(6.8)
Total, Federal revenues.....	7.5	4.5	3.3	4.6	5.1	6.0	5.7	7.1	6.7	6.4	8.9	31.0	65.8
Federal outlays:													
Public health trust funds in bill.....	---	2.6	2.7	3.8	4.5	5.8	3.0	3.1	3.2	---	---	19.4	28.6
HHS direct programs and grants to States.....	---	0.1	0.1	0.1	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.9	2.3
FDA direct enforcement and grants to States.....	---	0.3	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.4	1.6	3.5
Grants to States for ASSIST-type programs.....	---	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.5	1.3
Direct Federal R&D to discourage tobacco use.....	---	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.5	1.2
Payments to tobacco-sponsored events/teams.....	---	---	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.3	0.8
Public educ. campaign run by non-profit board.....	---	0.5	0.5	0.5	0.6	0.6	0.6	0.6	0.6	0.7	0.7	2.7	5.9
HHS payments for tobacco use cessation programs.....	---	1.0	1.1	1.1	1.1	1.7	1.8	1.8	1.9	2.0	2.0	6.0	15.5
Spending of look-back surcharge (90% grants).....	---	---	---	---	---	0.1	---	0.8	0.5	0.4	0.8	0.1	2.5
Subtotal, specified spending in bill.....	---	4.7	5.0	6.2	7.1	9.2	6.4	7.3	7.2	4.1	4.6	32.2	61.7
Unspecified residual to reach total payments.....	10.0	1.8	0.0	0.5	0.5	(0.2)	2.2	2.8	2.6	5.3	7.1	12.8	32.8
Total, Federal outlays, excl. debt Service.....	10.0	6.5	5.0	6.8	7.7	9.0	8.5	10.1	9.8	9.4	11.7	44.9	94.5
Federal deficit:													
Revenues (deficit effect).....	(7.5)	(4.5)	(3.3)	(4.6)	(5.1)	(6.0)	(5.7)	(7.1)	(6.7)	(6.4)	(8.9)	(31.0)	(65.8)
Programmatic outlays.....	10.0	6.5	5.0	6.8	7.7	9.0	8.5	10.1	9.8	9.4	11.7	44.9	94.5
Debt service.....	0.1	0.2	0.3	0.4	0.5	0.7	0.8	1.0	1.2	1.4	1.6	2.1	8.2
Federal deficit.....	2.6	2.2	1.9	2.6	3.1	3.6	3.7	4.0	4.3	4.4	4.4	16.0	36.8
MEMORANDUM: PAYGO budget effects:													
Revenues (deficit effect).....	(7.5)	(4.9)	(3.7)	(5.1)	(5.7)	(6.7)	(6.4)	(8.0)	(7.5)	(7.2)	(9.9)	(33.7)	(72.6)
Outlays.....	10.0	6.5	5.0	6.8	7.7	9.0	8.5	10.1	9.8	9.4	11.7	44.9	94.5
Total PAYGO deficit effect.....	2.5	1.6	1.2	1.7	1.9	2.2	2.1	2.2	2.3	2.2	1.8	11.2	21.9
ADDENDA:													
Available (residual) spending if held to PAYGO neutrality.....	7.5	0.2	(1.2)	(1.1)	(1.4)	(2.4)	0.0	0.6	0.2	3.1	5.3	1.5	10.9
Available (residual) spending if held to budget neutrality..	7.5	(0.1)	(1.6)	(1.7)	(2.0)	(3.2)	(0.7)	(0.2)	(0.6)	2.3	4.4	(1.1)	4.1
Deficit impact of higher CPI (COLAs and indexation).....	---	0.5	1.5	2.5	3.4	3.9	4.2	4.4	4.5	4.6	4.6	11.9	34.3
Potential increase in Federal matching grants(lower end).....	0.8	0.9	0.0	0.3	0.3	(0.1)	1.1	1.4	1.3	2.7	3.5	2.1	12.1
Potential increase in Federal matching grants(upper end).....	1.0	1.6	1.2	1.7	1.9	2.2	2.1	2.5	2.4	2.4	2.9	9.7	22.1
Reduction in current law State excise tax revenues.....	---	(0.6)	(0.5)	(0.7)	(0.8)	(0.9)	(0.9)	(1.1)	(1.1)	(1.1)	(1.4)	(3.6)	(9.2)

See Footnotes Next Page.

1. Reduction in tobacco volume is assumed to result solely from price increases due to passthrough of industry payments.
Access restrictions, public education, and cessation programs are assumed to have no additional effect.
2. Civil liability settlements are assumed to be at cap (33% of industry basic payments). Cap is assumed to be a single 33% cap for suits based on past and future conduct.
3. Corporate income tax rate of 35% is assumed in scenarios where surcharge payments are nondeductible.
4. No manufacturers are assumed to qualify for 75% good faith surcharge abatement.
5. All manufacturers are assumed to participate in the settlement.
6. All manufacturers are assumed to meet compliance plan and corporate culture requirements.
7. Amounts are assumed to increase for inflation as follows: (a) industry payments increase for inflation beginning in 1999;
(b) outlays increase for inflation beginning in 1999; (c) surcharge amount and cap increase for inflation beginning in 1997.
8. All industry payments are assumed to score as Federal Indirect Business Taxes (excise tax receipts).
As Indirect Business Taxes, industry payments are subject to a 25% income offset (BEA convention).
9. All payments are assumed to be spent as Federal outlays.
10. Industry payments are reduced to provide a credit for excise tax increases enacted as part of BBA '97.
11. States could use some portion of increased funds to increase matched grant spending, thereby generating a Federal match.
12. CPI effects shown as memorandum only because they at least partially overlap with the 25% income offset.

SUMMARY OF BUDGETARY EFFECTS OF PROPOSED SETTLEMENT WITH EXCISE TAX TRIGGER WHEN YOUTH TARGETS NOT MET

09/03/97

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(In billions of dollars)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	98-03	98-08
RECEIPTS													
Base Payment (inc. trust and up-front payment).....	10	9	10	12	14	15	15	15	15	15	15	69	144
Payments to Recoup Excise Tax Credit and/or Losses.....	---	---	---	---	---	---	---	---	---	---	---	---	---
Adult Sales Volume Adjustment.....	---	(1)	(1)	(1)	(2)	(3)	(3)	(3)	(3)	(3)	(3)	(8)	(23)
Credit for Personal Compensation Claims.....	---	(1)	(2)	(2)	(2)	(2)	(3)	(3)	(3)	(3)	(3)	(9)	(24)
Inflation Adjustment.....	---	0	0	1	1	2	2	2	2	3	3	4	16
Credit for BBA Excise Taxes.....	---	---	(2)	(2)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(11)	(27)
Look-Back Surcharge for Youth Consumption.....	---	---	---	---	---	3	1	3	2	1	3	3	13
Net Industry Settlement Payments.....	10	7	5	7	8	11	10	11	10	10	11	47	99
Tax Offsets													
Indirect Business Tax Offset.....	(3)	(2)	(1)	(2)	(2)	(3)	(2)	(3)	(3)	(2)	(3)	(12)	(25)
Corporate Income Tax on Look-Back Surcharge.....	---	---	---	---	---	---	---	---	---	---	---	---	---
Youth Excise Tax Trigger.....	---	---	---	---	---	1	1	3	3	3	4	1	16
Reduction in Existing Federal Excise Taxes.....	---	(0)	(0)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(3)	(8)
Total Federal Tax Offsets.....	(3)	(2)	(2)	(2)	(3)	(2)	(2)	(1)	(1)	(0)	0	(13)	(17)
Net Additional Receipts to US Government.....	8	5	3	5	5	9	8	10	10	9	12	34	82
POTENTIAL USES/CHANGES													
State Attorneys General Proposals, Total.....	---	5	5	6	7	9	6	7	7	4	4	32	59
Offset Reduction in State Excise Taxes.....	---	1	1	1	1	1	1	1	1	1	2	4	11
Use of Youth Look-Back Surcharge (90% grants).....	---	---	---	---	---	3	1	3	2	1	3	3	13
Potential Increase in Federal Medicaid Match.....	1	2	1	2	2	3	2	3	3	2	3	10	23
Total Potential Uses.....	1	7	7	9	10	16	11	13	12	9	11	49	106
Memoranda:													
Ad Valorem Equivalent of Net Payments.....	17%	13%	17%	19%	30%	27%	33%	31%	31%	36%			
Change in Total Cigarette Consumption.....	-7%	-6%	-8%	-9%	-14%	-13%	-15%	-14%	-14%	-16%			
Percentage Point Shortfall from Youth Target.....						30%	24%	46%	42%	44%	55%		

**Potential Budgetary Impacts of Tobacco Agreement
With Excise Tax Trigger when Youth Targets Not Met**
(in billions of dollars)

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	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	98-03	98-08
Federal revenues:													
Industry payments:													
Up-front payment.....	10.0	---	---	---	---	---	---	---	---	---	---	10.0	10.0
Public health trust funds in bill.....	---	2.5	2.5	3.5	4.0	5.0	2.5	2.5	2.5	---	---	17.5	25.0
Base amounts in bill.....	---	6.0	7.0	8.0	10.0	10.0	12.5	12.5	12.5	15.0	15.0	41.0	108.5
Additional amounts to recover BBA97 credit.....	---	---	---	---	---	---	---	---	---	---	---	---	---
Additional amounts to recover excise tax losses.....	---	---	---	---	---	---	---	---	---	---	---	---	---
Adult sales volume adjustments.....	---	(0.7)	(0.9)	(1.4)	(2.0)	(2.8)	(2.7)	(3.1)	(3.0)	(3.0)	(3.4)	(7.9)	(23.2)
Credits for civil suits at cap.....	---	(1.4)	(1.7)	(1.9)	(2.3)	(2.1)	(2.7)	(2.6)	(2.6)	(3.2)	(3.1)	(9.4)	(23.5)
Inflation adjustments on above.....	---	0.2	0.4	0.8	1.2	1.6	1.9	2.1	2.5	2.7	2.9	4.2	16.3
Credit for BBA97 excise tax increase.....	---	---	(2.4)	(2.3)	(3.4)	(3.2)	(3.2)	(3.1)	(3.1)	(3.1)	(3.0)	(11.2)	(26.9)
Look-back surcharge.....	---	---	---	---	---	2.6	1.4	2.7	1.6	1.4	3.0	2.6	12.7
User fees for nonparticipants.....	---	---	---	---	---	---	---	---	---	---	---	---	---
Net penalties.....	---	---	---	---	---	---	---	---	---	---	---	---	---
Subtotal, industry payments.....	10.0	6.5	5.0	6.7	7.6	11.0	9.6	11.0	10.3	9.8	11.4	46.8	98.9
Tax offset at 25% (IBT).....	(2.5)	(1.6)	(1.2)	(1.7)	(1.9)	(2.8)	(2.4)	(2.8)	(2.6)	(2.4)	(2.8)	(11.7)	(24.7)
Corporate income tax on look-back surcharge.....	---	---	---	---	---	---	---	---	---	---	---	---	---
Teen excise tax.....	---	---	---	---	---	1.5	1.5	2.9	2.9	2.9	4.3	1.5	16.0
Reduction in tobacco excise taxes (non-PAYGO).....	---	(0.3)	(0.4)	(0.5)	(0.7)	(1.0)	(0.9)	(1.1)	(1.0)	(1.0)	(1.1)	(2.9)	(7.9)
Total, Federal revenues.....	7.5	4.5	3.3	4.5	5.0	8.8	7.8	10.1	9.7	9.3	11.7	33.7	82.2
Federal outlays:													
Public health trust funds in bill.....	---	2.6	2.7	3.8	4.5	5.8	3.0	3.1	3.2	---	---	19.4	28.6
HHS direct programs and grants to States.....	---	0.1	0.1	0.1	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.9	2.3
FDA direct enforcement and grants to States.....	---	0.3	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.4	1.6	3.5
Grants to States for ASSIST-type programs.....	---	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.5	1.3
Direct Federal R&D to discourage tobacco use.....	---	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.5	1.2
Payments to tobacco-sponsored events/teams.....	---	---	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.3	0.8
Public educ. campaign run by non-profit board.....	---	0.5	0.5	0.5	0.6	0.6	0.6	0.6	0.6	0.7	0.7	2.7	5.9
HHS payments for tobacco use cessation programs.....	---	1.0	1.1	1.1	1.1	1.7	1.8	1.8	1.9	2.0	2.0	6.0	15.5
Spending of look-back surcharge (90% grants).....	---	---	---	---	---	2.6	1.4	2.7	1.6	1.4	3.0	2.6	12.7
Subtotal, specified spending in bill.....	---	4.7	5.0	6.2	7.1	11.6	7.8	9.3	8.4	5.1	6.8	34.6	71.9
Unspecified residual to reach total payments.....	10.0	1.8	(0.0)	0.5	0.5	(0.6)	1.9	1.7	1.9	4.7	4.6	12.2	27.0
Total, Federal outlays, excl. debt Service.....	10.0	6.5	5.0	6.7	7.6	11.0	9.6	11.0	10.3	9.8	11.4	46.8	98.9
Federal deficit:													
Revenues (deficit effect).....	(7.5)	(4.5)	(3.3)	(4.5)	(5.0)	(8.8)	(7.8)	(10.1)	(9.7)	(9.3)	(11.7)	(33.7)	(82.2)
Programmatic outlays.....	10.0	6.5	5.0	6.7	7.6	11.0	9.6	11.0	10.3	9.8	11.4	46.8	98.9
Debt service.....	0.1	0.2	0.3	0.4	0.5	0.6	0.8	0.9	0.9	1.0	1.1	2.1	6.7
Federal deficit.....	2.6	2.2	1.9	2.6	3.1	2.9	2.6	1.8	1.6	1.5	0.8	15.2	23.4
MEMORANDUM: PAYGO budget effects:													
Revenues (deficit effect).....	(7.5)	(4.9)	(3.7)	(5.0)	(5.7)	(9.7)	(8.7)	(11.2)	(10.7)	(10.3)	(12.8)	(36.6)	(90.1)
Outlays.....	10.0	6.5	5.0	6.7	7.6	11.0	9.6	11.0	10.3	9.8	11.4	46.8	98.9
Total PAYGO deficit effect.....	2.5	1.6	1.2	1.7	1.9	1.3	0.9	(0.1)	(0.3)	(0.5)	(1.4)	10.2	8.7
ADDENDA:													
Available (residual) spending if held to PAYGO neutrality	7.5	0.2	(1.2)	(1.2)	(1.4)	(1.9)	0.9	1.9	2.3	5.1	6.0	1.9	18.3
Available (residual) spending if held to budget neutrality..	7.5	(0.1)	(1.6)	(1.7)	(2.1)	(2.9)	0.0	0.8	1.3	4.2	4.9	(0.9)	10.3
Deficit impact of higher CPI (COLAs and indexation).....	---	0.5	1.5	2.5	3.4	3.9	4.2	4.4	4.5	4.6	4.6	11.9	34.3
Potential increase in Federal matching grants(lower end)	0.8	0.9	(0.0)	0.2	0.2	(0.3)	0.9	0.9	1.0	2.3	2.3	1.8	9.2
Potential increase in Federal matching grants(upper end)	1.0	1.6	1.2	1.7	1.9	2.8	2.4	2.8	2.6	2.4	2.8	10.2	23.2
Reduction in current law State excise tax revenues.....	---	(0.6)	(0.5)	(0.7)	(0.8)	(1.2)	(1.2)	(1.4)	(1.4)	(1.4)	(1.6)	(3.9)	(10.8)

See Footnotes Next Page.

1. Reduction in tobacco volume is assumed to result solely from price increases due to passthrough of industry payments.
Access restrictions, public education, and cessation programs are assumed to have no additional effect.
2. Civil liability settlements are assumed to be at cap (33% of industry basic payments). Cap is assumed to be a single 33% cap for suits based on past and future conduct.
3. Corporate income tax rate of 35% is assumed in scenarios where surcharge payments are nondeductible.
4. No manufacturers are assumed to qualify for 75% good faith surcharge abatement.
5. All manufacturers are assumed to participate in the settlement.
6. All manufacturers are assumed to meet compliance plan and corporate culture requirements.
7. Amounts are assumed to increase for inflation as follows: (a) industry payments increase for inflation beginning in 1999;
(b) outlays increase for inflation beginning in 1999; (c) surcharge amount and cap increase for inflation beginning in 1997.
8. All industry payments are assumed to score as Federal Indirect Business Taxes (excise tax receipts).
As Indirect Business Taxes, industry payments are subject to a 25% income offset (BEA convention).
9. All payments are assumed to be spent as Federal outlays.
10. Industry payments are reduced to provide a credit for excise tax increases enacted as part of BBA '97.
11. States could use some portion of increased funds to increase matched grant spending, thereby generating a Federal match.
12. CPI effects shown as memorandum only because they at least partially overlap with the 25% income offset.

SUMMARY OF BUDGETARY EFFECTS OF PROPOSED SETTLEMENT
WITH EXCISE TAX TRIGGER WHEN YOUTH TARGETS NOT MET AND 30% NONPRICE EFFECT
(In billions of dollars)

09/03/97

09:24 AM

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	98-03	98-08
RECEIPTS													
Base Payment (inc. trust and up-front payment).....	10	9	10	12	14	15	15	15	15	15	15	69	144
Payments to Recoup Excise Tax Credit and/or Losses..	---	---	---	---	---	---	---	---	---	---	---	---	---
Adult Sales Volume Adjustment.....	---	(1)	(1)	(1)	(2)	(2)	(2)	(3)	(3)	(3)	(3)	(7)	(21)
Credit for Personal Compensation Claims.....	---	(1)	(2)	(2)	(2)	(2)	(3)	(3)	(3)	(3)	(3)	(9)	(24)
Inflation Adjustment.....	---	0	0	1	1	2	2	2	3	3	3	4	17
Credit for BBA Excise Taxes.....	---	---	(2)	(2)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(11)	(27)
Look-Back Surcharge for Youth Consumption.....	---	---	---	---	---	0	---	1	0	0	2	0	4
Net Industry Settlement Payments.....	10	7	5	7	8	9	9	9	9	9	10	45	91
Tax Offsets													
Indirect Business Tax Offset.....	(3)	(2)	(1)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(3)	(11)	(23)
Corporate Income Tax on Look-Back Surcharge.....	---	---	---	---	---	---	---	---	---	---	---	---	---
Youth Excise Tax Trigger.....	---	---	---	---	---	2	---	3	3	3	4	2	15
Reduction in Existing Federal Excise Taxes.....	---	(0)	(0)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(3)	(7)
Total Federal Tax Offsets.....	(3)	(2)	(2)	(2)	(3)	(2)	(3)	(0)	(0)	(0)	1	(12)	(16)
Net Additional Receipts to US Government.....	8	5	3	5	5	7	6	9	9	9	11	32	76
POTENTIAL USES/CHANGES													
State Attorneys General Proposals, Total.....	---	5	5	6	7	9	6	7	7	4	4	32	59
Offset Reduction in State Excise Taxes.....	---	1	1	1	1	1	1	1	1	1	2	4	10
Use of Youth Look-Back Surcharge (90% grants).....	---	---	---	---	---	0	---	1	0	0	2	0	4
Potential Increase in Federal Medicaid Match.....	1	2	1	2	2	2	2	2	2	2	3	10	21
Total Potential Uses.....	1	7	7	9	10	12	9	11	11	8	10	46	94
Memoranda:													
Ad Valorem Equivalent of Net Payments.....	17%	13%	17%	20%	25%	22%	30%	29%	29%	34%			
Change in Total Cigarette Consumption.....	-7%	-6%	-8%	-9%	-12%	-10%	-13%	-13%	-13%	-15%			
Percentage Point Shortfall from Youth Target.....						1%	-8%	14%	9%	10%	20%		

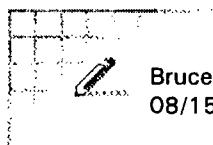
Potential Budgetary Impacts of Tobacco Agreement
With Excise Tax Trigger when Youth Targets Not Met and 30% Nonprice Effect
(in billions of dollars)

09/03/97
09:24 AM
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	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	98-03	98-08
Federal revenues:													
Industry payments:													
Up-front payment.....	10.0	---	---	---	---	---	---	---	---	---	---	10.0	10.0
Public health trust funds in bill.....	---	2.5	2.5	3.5	4.0	5.0	2.5	2.5	2.5	---	---	17.5	25.0
Base amounts in bill.....	---	6.0	7.0	8.0	10.0	10.0	12.5	12.5	12.5	15.0	15.0	41.0	108.5
Additional amounts to recover BBA97 credit.....	---	---	---	---	---	---	---	---	---	---	---	---	---
Additional amounts to recover excise tax losses.....	---	---	---	---	---	---	---	---	---	---	---	---	---
Adult sales volume adjustments.....	---	(0.7)	(0.9)	(1.3)	(1.9)	(2.4)	(2.3)	(2.8)	(2.8)	(2.8)	(3.2)	(7.3)	(21.1)
Credits for civil suits at cap.....	---	(1.5)	(1.7)	(1.9)	(2.3)	(2.2)	(2.8)	(2.7)	(2.7)	(3.2)	(3.1)	(9.5)	(24.0)
Inflation adjustments on above.....	---	0.2	0.4	0.8	1.2	1.7	1.9	2.2	2.5	2.7	3.0	4.3	16.7
Credit for BBA97 excise tax increase.....	---	---	(2.4)	(2.3)	(3.4)	(3.3)	(3.3)	(3.2)	(3.2)	(3.2)	(3.1)	(11.3)	(27.2)
Look-back surcharge.....	---	---	---	---	---	0.1	---	0.9	0.4	0.4	1.7	0.1	3.5
User fees for nonparticipants.....	---	---	---	---	---	---	---	---	---	---	---	---	---
Net penalties.....	---	---	---	---	---	---	---	---	---	---	---	---	---
Subtotal, industry payments.....	10.0	6.5	5.0	6.8	7.7	8.9	8.5	9.4	9.3	8.9	10.4	44.8	91.4
Tax offset at 25% (IBT).....	(2.5)	(1.6)	(1.2)	(1.7)	(1.9)	(2.2)	(2.1)	(2.4)	(2.3)	(2.2)	(2.6)	(11.2)	(22.8)
Corporate income tax on look-back surcharge.....	---	---	---	---	---	---	---	---	---	---	---	---	---
Teen excise tax.....	---	---	---	---	---	1.5	---	3.0	3.0	2.9	4.3	1.5	14.7
Reduction in tobacco excise taxes (non-PAYGO).....	---	(0.3)	(0.4)	(0.5)	(0.7)	(0.8)	(0.7)	(1.0)	(0.9)	(0.9)	(1.1)	(2.8)	(7.4)
Total, Federal revenues.....	7.5	4.5	3.3	4.6	5.1	7.3	5.7	9.1	9.0	8.7	11.0	32.4	75.8
Federal outlays:													
Public health trust funds in bill.....	---	2.6	2.7	3.8	4.5	5.8	3.0	3.1	3.2	---	---	19.4	28.6
HHS direct programs and grants to States.....	---	0.1	0.1	0.1	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.9	2.3
FDA direct enforcement and grants to States.....	---	0.3	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.4	1.6	3.5
Grants to States for ASSIST-type programs.....	---	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.5	1.3
Direct Federal R&D to discourage tobacco use.....	---	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.5	1.2
Payments to tobacco-sponsored events/teams.....	---	---	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.3	0.8
Public educ. campaign run by non-profit board.....	---	0.5	0.5	0.5	0.6	0.6	0.6	0.6	0.6	0.7	0.7	2.7	5.9
HHS payments for tobacco use cessation programs.....	---	1.0	1.1	1.1	1.1	1.7	1.8	1.8	1.9	2.0	2.0	6.0	15.5
Spending of look-back surcharge (90% grants).....	---	---	---	---	---	0.1	---	0.9	0.4	0.4	1.7	0.1	3.5
Subtotal, specified spending in bill.....	---	4.7	5.0	6.2	7.1	9.2	6.4	7.4	7.1	4.1	5.5	32.2	62.7
Unspecified residual to reach total payments.....	10.0	1.8	0.0	0.5	0.5	(0.3)	2.2	2.0	2.2	4.8	4.8	12.6	28.7
Total, Federal outlays, excl. debt Service.....	10.0	6.5	5.0	6.8	7.7	8.9	8.5	9.4	9.3	8.9	10.4	44.8	91.4
Federal deficit:													
Revenues (deficit effect).....	(7.5)	(4.5)	(3.3)	(4.6)	(5.1)	(7.3)	(5.7)	(9.1)	(9.0)	(8.7)	(11.0)	(32.4)	(75.8)
Programmatic outlays.....	10.0	6.5	5.0	6.8	7.7	8.9	8.5	9.4	9.3	8.9	10.4	44.8	91.4
Debt service.....	0.1	0.2	0.3	0.4	0.5	0.6	0.8	0.9	0.9	1.0	1.0	2.1	6.6
Federal deficit.....	2.6	2.2	1.9	2.6	3.1	2.2	3.6	1.2	1.2	1.2	0.4	14.5	22.2
MEMORANDUM: PAYGO budget effects:													
Revenues (deficit effect).....	(7.5)	(4.9)	(3.7)	(5.1)	(5.7)	(8.2)	(6.4)	(10.0)	(9.9)	(9.6)	(12.1)	(35.1)	(83.2)
Outlays.....	10.0	6.5	5.0	6.8	7.7	8.9	8.5	9.4	9.3	8.9	10.4	44.8	91.4
Total PAYGO deficit effect.....	2.5	1.6	1.2	1.7	1.9	0.7	2.1	(0.6)	(0.6)	(0.7)	(1.7)	9.7	8.2
ADDENDA:													
Available (residual) spending if held to PAYGO neutrality.....	7.5	0.2	(1.2)	(1.1)	(1.4)	(1.0)	0.0	2.6	2.8	5.6	6.5	3.0	20.5
Available (residual) spending if held to budget neutrality..	7.5	(0.1)	(1.6)	(1.7)	(2.0)	(1.8)	(0.7)	1.6	1.9	4.6	5.5	0.2	13.1
Deficit impact of higher CPI (COLAs and indexation).....	---	0.5	1.5	2.5	3.4	3.9	4.2	4.4	4.5	4.6	4.6	11.9	34.3
Potential increase in Federal matching grants(lower end)	0.8	0.9	0.0	0.3	0.3	(0.2)	1.1	1.0	1.1	2.4	2.4	2.1	10.1
Potential increase in Federal matching grants(upper end)	1.0	1.6	1.2	1.7	1.9	2.2	2.1	2.4	2.3	2.2	2.6	9.7	21.3
Reduction in current law State excise tax revenues.....	---	(0.6)	(0.5)	(0.7)	(0.8)	(1.0)	(0.9)	(1.3)	(1.3)	(1.3)	(1.6)	(3.7)	(10.1)

See Footnotes Next Page.

1. Reduction in tobacco volume is assumed to result solely from price increases due to passthrough of industry payments.
Access restrictions, public education, and cessation programs are assumed to have no additional effect.
2. Civil liability settlements are assumed to be at cap (33% of industry basic payments). Cap is assumed to be a single 33% cap for suits based on past and future conduct.
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10. Industry payments are reduced to provide a credit for excise tax increases enacted as part of BBA '97.
11. States could use some portion of increased funds to increase matched grant spending, thereby generating a Federal match.
12. CPI effects shown as memorandum only because they at least partially overlap with the 25% income offset.



Bruce N. Reed
08/15/97 06:01:58 PM

Record Type: Record

To: Elena Kagan/OPD/EOP, Elizabeth Drye/OPD/EOP, Jerold R. Mande/OSTP/EOP

CC:

Subject: Penalty runs

Could you have OMB run a few penalty scenarios to see how much they cost? We need 10 and 25-year numbers, as well as year-by-year totals. We should also figure out both pre- and post-tax cost (i.e., how much the industry must earn in order to pay the penalty). I don't know what tax rate to assume; the companies say 42%.

1. Two-tier penalty structure, as follows:

- * If industry misses target by less than 10%, each point costs \$80 million, and is tax-deductible.
- * If industry misses target by more than 10%, each point (above the first 10) costs \$160 million, and is not tax-deductible.
- * Eliminate the cap.
- * Keep the double counting provision as written.

2. One-tier penalty, but not tax-deductible:

- * Each point costs \$80 million
- * No cap.
- * Keep double counting provision.
- * Find out the pretax cost to the company

3. Higher one-tier penalty, but tax-deductible:

- * \$160 million a point
- * No cap.
- * Keep double counting provision.

4. Excise tax trigger:

- * \$80 million a point, tax-deductible.
- * Keep \$2 billion cap.
- * Keep double counting.
- * If industry misses target in year 5, it triggers 10 cent a pack tax. If target missed in year 7, that tax rises to 20 cents a pack. If target missed in year 10, rises to 30 cents a pack.

That's probably enough scenarios for now. Thanks.



"gruberj%DOM13.DOP07" <JONATHAN.GRUBER @
MS01.DO.treas.sprint.com>
02/18/98 06:32:01 AM

Record Type: Record

To: "devlinc%Dom13.DOP07" <Christine.C.D.Devlin @ MS01.DO.treas.sprint.com> ,
"kitchenj%Dom13.DOP07" <John.Kitchen @ MS01.DO.treas.sprint.com> , Jerold R.
Mande/OSTP/EOP
cc: "gruberj%Dom13.DOP07" <JONATHAN.GRUBER @ MS01.DO.treas.sprint.com>
Subject: memo for Harkin on youth penalties

Date: 02/17/1998 11:22 pm (Tuesday)
From: Jonathan Gruber
To: EX.MAIL."jmande@ostp.eop.gov", devlinc, kitchenj
CC: gruberj
Subject: memo for Harkin on youth penalties

Jerry -

Feel free to revise this if there are minor changes. If the changes are major, you should probably check with John Kitchen at 622-1757 before acting.

Chris, could you please call Jerry in the a.m. and make sure that he got this file?

John K, I'll be running in the morning, so feel free to make executive decisions on this if Jerry calls. A couple of things we should learn before the 11:00 meeting:

- 1) Under Harkin's proposed price increase, what is the time path of youth smoking?
- 2) How does this change with the proposed (in the attached memo) industry penalty structure?

Do this for our 10-20% range of non-price effects estimates.

Thanks -

Jon



- att1.unk

July 30, 1997

REVISING THE LOOK-BACK

The proposed settlement contains a “look-back” provision with the stated purpose of providing economic incentives to tobacco firms to achieve “dramatic and immediate reductions in the number of underage consumers of tobacco products.” Manufacturers would face a surcharge if tobacco-use reduction targets for underage users are not met. The surcharge would be imposed on the basis of a “look-back” comparing actual underage teen tobacco use to the targeted reduction percentages. Manufacturers could petition the FDA for partial abatement of the surcharge if they act in good faith and in full compliance with the Act.

The proposed surcharge would be small in terms of the price per pack of cigarettes -- at the \$2 billion cap it would represent about 8 cents per pack, and with a 75 percent abatement, only 2 cents per pack. Moreover, firms can readily pass this small cost through to the price of cigarettes, since the payments are adjusted for sales. *A lookback surcharge at this level is therefore unlikely to provide strong incentives for tobacco companies to reduce youth smoking.*

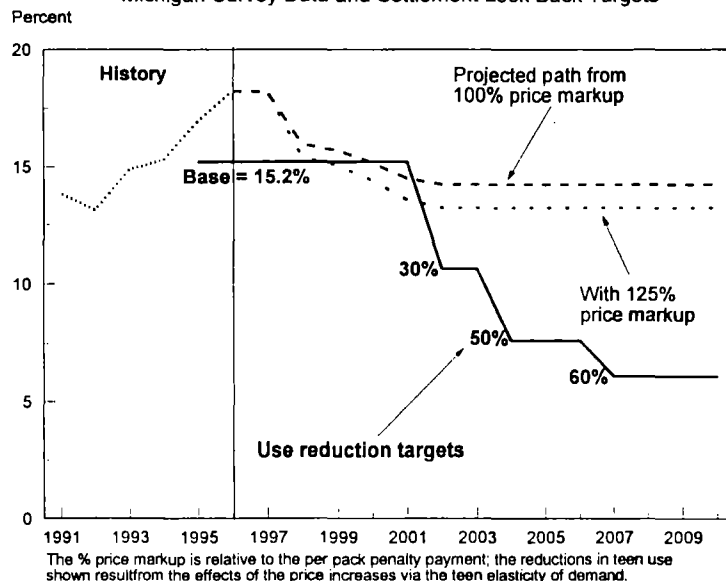
The chart illustrates the targeted reductions in teen smoking, and the paths of teen smoking projected to occur under alternative assumptions about the passthrough into prices of the industry payments under the proposed settlement. Clearly, the price increases induced by the other aspects of the plan will not be sufficient to cause the targets to be met.

PROBLEMS AND PRINCIPLES

The settlement’s look-back provision is based on the principle that the penalty should reflect the present discounted value of the profits earned by attracting youth smokers over and above the targeted number. But such a penalty merely makes the industry indifferent about whether it meets the target or not. A larger penalty is required to achieve meaningful deterrence. To correct this and other problems, the structure of the look-back should be altered in some rather fundamental ways.

1. Penalty as a multiple of profits; No \$2 billion cap. To assure that firms are given an adequate incentive to reduce underage youth smoking, *the surcharge penalty should be a multiple of the present value of profits and the \$2 billion cap should be eliminated.*

Underage Daily Cigarette Smoking Percentages and Targets
Michigan Survey Data and Settlement Look Back Targets



- The base amount for the surcharge in the agreement -- \$80 million per percentage point of the shortfall of the percent decline in underage use relative to the reduction target percentage -- was determined as part of the negotiations between the Attorneys General and the industry. Our estimate for the “break-even” surcharge level under the current structure is \$75 million per percentage point, similar to the \$80 million of the agreement.
- A penalty which is set exactly equal to the foregone profit stream offers no incentive to reduce youth smoking. Instead, the penalty should be a multiple of foregone profits, to provide an incentive to firms to find ways to reduce youth smoking. Setting the penalty as a multiple -- say 3 times -- of profits would point to a base surcharge level of about \$225 million under the current structure of the settlement.
- The current structure includes a \$2 billion cap for annual industry payments under the look-back surcharge. But this cap would have the perverse feature of removing the incentive to reduce youth smoking if youth smoking were to remain high. Moreover, it is more likely that the cap would be hit under the principle of having the surcharge penalty be a multiple of profits. Thus, *this cap should be removed.*

2. Company by Company Fines: ***Fines should be levied on a firm-by-firm basis to create the right incentives and to avoid “free-rider” problems.*** Because the smoking reduction targets are specified based on industry-wide underage usage, individual firms have an incentive to keep selling to youths because they reap the full reward while bearing only part of the penalty. As each firm has this same incentive, in practice it is less likely that the reduction targets would be met. By specifying the fines on a company by company basis, the fine will hit an individual firm’s profits directly if it fails to reduce youth smoking of its brands.

- However, there are important data problems with a company-by-company approach that must be addressed. Company-by-company fines would require that the Michigan Survey be expanded to ask the underage tobacco users about their brand preferences and use. Also, it is not yet known what the base market share is for each company; if the Michigan Survey were expanded for that purpose, firms would have an incentive to boost their sales to teens in the near term so as to establish an inflated baseline from which to attain reductions. Finally, a mechanism must be developed to deal with reported use of more than one brand.
- Implementation on a company-by-company basis would require that the fines be specified on a *per youth smoker* basis in order to make proper calculations.

3. No tax deductibility: *The surcharge payments should be treated as a fine or penalty for tax purposes.*

- Typically, payments required to be payable to government entities as fines or penalties are *not* tax deductible. The agreement states, however, that payments “shall be deemed ordinary and necessary business expenses . . . and no part thereof is a . . . fine or penalty . . .”. *We should reiterate that these payments are fines and are not tax deductible.* (If, contrary to our recommendations, deductibility is retained, the fine estimates shown below should be increased by about 50%).

4. No Volume Adjustment: *The base surcharge should not be reduced by a decline in the volume of industry sales.* The agreement calls for the surcharge amount to be adjusted for the change in the sales-weighted level of per unit profits. The sales adjustment would be relative to a base 1996 level.

- With the volume adjustment, firms would be able to pass the penalty through to customers through price increases and not bear the penalty themselves. However, if the volume adjustment is eliminated, to the extent that the costs are absorbed by the firms and their stockholders, the effect on prices and teen use would be reduced.

Fine Levels: Our calculations show that, with the above provisions, the *break-even* value for the fine would be about \$1460 *per youth smoker*. Over time, the \$1460 base value would have to be adjusted by the change in industry per unit profits (\$ per unit) relative to the base year of the agreement -- otherwise it could be eroded by inflation and wouldn't capture true profit effects. The principle of having penalties equal to three times profits would therefore point to a total *surcharge level of \$4380 per youth smoker*.

The use-reduction targets on a firm-by-firm basis would be specified as the number of teen smokers consistent with the targeted percentage reduction (e.g. 60%) from the base number of teens who smoked that firm's product. This number would be adjusted to account for the percentage change in the overall population of teens from the base year to the surcharge year.

5. Improved Partial Abatement Mechanism: *The partial abatement -- under which firms could receive up to 75% abatement of the surcharge -- should be adjusted to create the proper incentives.*

- There is substantial concern that the abatement in its present form would erode the incentive provided by the surcharge and likely would cause it to do little actual “work” in its stated purpose of having firms comply with the agreement. Many believe that it would be too easy for firms to qualify for the abatement.
 - In general, there is a tradeoff between motivating firms to follow the rules and motivating them to promote lower smoking. A substantial abatement would offer strong incentives to follow the rules, but would limit incentives to consider innovative means of lowering youth smoking. Eliminating the abatement would provide an incentive to firms to figure out how to lower youth smoking, but offer no penalty for not following the rules.
 - These considerations suggest that the proper penalty structure should have two parts:
 - a *non-abatable penalty* which is substantially higher than forgone profits, to provide the incentive to firms to find ways to reduce teen smoking of their brand. This must be higher than foregone profits to provide private incentives.
 - an *abatable penalty* which is removed if firms are found (through a clear and unambiguous regulatory process, not a judicial process) to have “followed the rules”. The government should have the flexibility to update these regulations to capture innovations in youth smoking reduction.
6. Penalty should be nonlinear to maximize impact. The *non-abatable* part of the surcharge could be structured to cost more per percentage point of youth use at higher levels than at lower levels. This would have the effect of increasing the penalty as the level of noncompliance rises.
- A suggested schedule, once fully phased in, might be:
 - teen use declines by between 50-60%: fine is 2 times profits
 - teen use declines by between 40-50%: fine is 2.5 times profits
 - teen use declines by between 30-40%: fine is 3 times profits
 - teen use declines by between 20-30%: fine is 3.5 times profits
 - teen use declines by between 10-20%: fine is 4 times profits
 - teen use declines by less than 10%: fine is 5 times profits
 - Another way of implementing this nonlinear penalty approach would be to have the abatement percentage increase as the level of teen smoking got closer to the reduction target.

7. **Incentives and the 18- to 21-year old age group.** Because the agreement is targeted at underage youth smokers, we must be aware of the incentives it creates relative to slightly older groups. For example, data show that 90% of adult smokers begin smoking as teenagers, and since the reduction targets are specified in terms of 13-17 year-olds, the industry may just simply target 18- to 20-year olds.
- One option would be to expand the use-reduction targets to include 18-20 year-olds. The teen use survey would have to be expanded even further in the effort to identify the percentage of smokers 18-20 years old.
 - Approximate calculations indicate that the base surcharge per smoker would be higher under this option, at about \$4575 per youth smoker. Industry lost profits are higher (about \$1525) because of the more intensive smoking that occurs at the higher ages and because of the fact that individuals kept from smoking by age 21 will be less likely to take up smoking as adults (relative to not smoking by age 18).
 - From a philosophical as well as practical standpoint, it may be undesirable to penalize a private firm for making a legal sale of a legal product to a legal adult. It may be preferable to *raise the legal age to 21* if the intent is to reduce under-21 smoking. Raising the legal age would have the additional benefit of making it more difficult for high schoolers to have friends who have access to cigarettes. Raising the legal age could be done even if the look-back surcharge is put in place.
 - If the legal age were to be raised, it presumably would have to be phased in to "grandfather" those who currently are under 21 and are legally permitted to purchase cigarettes.
8. **The double-counting provision of the settlement should be reconsidered.** In practice, if the double counting adjustment were eliminated, firms would face the prospect of paying for a 13-year old smoker five times over a 5-year period. That would produce a significant incentive for firms to keep young teens from taking up smoking.
- Since more years of smoking as a teen will increase the odds of addiction, it may be appropriate to increase the fines for each year that a teen smokes.
 - An additional justification for eliminating the double-counting provision is that it would be extremely difficult in practice for the FDA to calculate the proper adjustment for double-counting. The targets are specified in terms of the percentage reduction of all underage users and not the number of users by age category. This problem would be further complicated if fines were to be specified on a company-by-company basis.

SUMMARY OF BUDGETARY EFFECTS OF PROPOSED SETTLEMENT

(In billions of dollars; assumes youth consumption reduction targets are not met)

08/13/97

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	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>998-03</u>	<u>1998-08</u>
RECEIPTS													
Base Payment (inc. trust and up-front payment).....	10	9	10	12	14	15	15	15	15	15	15	69	144
Adult Sales Volume Adjustment.....	---	(1)	(2)	(3)	(4)	(5)	(5)	(5)	(5)	(5)	(5)	(15)	(39)
Credit for Personal Compensation Claims.....	---	(1)	(1)	(2)	(2)	(2)	(2)	(2)	(2)	(3)	(3)	(8)	(20)
Inflation Adjustment.....	---	---	0	0	1	1	1	2	2	2	2	2	11
Look-Back Surcharge for Youth Consumption.....	---	---	---	---	---	<u>2</u>	<u>0</u>	<u>3</u>	<u>1</u>	<u>1</u>	<u>3</u>	<u>2</u>	<u>10</u>
Net Industry Settlement Payments.....	10	6	6	7	9	11	10	12	11	11	13	50	106
Tax Offsets													
Indirect Business Tax Offset.....	(3)	(1)	(2)	(2)	(2)	(3)	(2)	(3)	(3)	(3)	(3)	(12)	(27)
Reduction in Federal Excise Taxes.....	(0)	(1)	(1)	(1)	(2)	(1)	(1)	(1)	(1)	(1)	(1)	(6)	(13)
Total Federal Tax Offsets.....	(3)	(2)	(3)	(3)	(4)	(4)	(4)	(5)	(4)	(4)	(5)	(19)	(40)
Net Additional Receipts to US Government.....	7	4	4	4	5	7	6	8	7	7	8	31	66
POTENTIAL USES/CHANGES													
State Attorneys General Proposals, Total.....	---	5	5	6	7	9	6	6	7	4	4	31	58
Offset Reduction in State Excise Taxes.....	1	1	1	2	2	2	2	2	2	2	2	8	16
Use of Youth Look-Back Surcharge (90% grants).....	---	---	---	---	---	2	0	3	1	1	3	2	10
Potential Increase in Federal Medicaid Match.....	<u>1</u>	<u>1</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>3</u>	<u>2</u>	<u>3</u>	<u>3</u>	<u>3</u>	<u>3</u>	<u>11</u>	<u>25</u>
Total Potential Uses.....	2	7	8	9	11	15	11	14	12	9	11	51	109

NOTE: Net additional receipts levels assume the elimination of the credit for BBA excise taxes.

SUMMARY OF BUDGETARY EFFECTS OF PROPOSED SETTLEMENT

(In billions of dollars; assumes youth consumption reduction targets are not met)

08/13/97

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	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	998-03	1998-08
RECEIPTS													
Base Payment (inc. trust and up-front payment).....	10	9	10	12	14	15	15	15	15	15	15	69	144
Adult Sales Volume Adjustment (excl. trust fund).....	---	(1)	(1)	(2)	(3)	(3)	(4)	(4)	(4)	(5)	(5)	(10)	(32)
Credit for Personal Compensation Claims.....	---	(1)	(1)	(2)	(2)	(2)	(2)	(2)	(2)	(3)	(3)	(8)	(20)
Inflation Adjustment.....	---	---	0	0	1	1	1	2	2	2	2	3	12
Look-Back Surcharge for Youth Consumption.....	---	---	---	---	---	2	0	3	1	1	3	2	10
Net Industry Settlement Payments.....	10	6	7	8	10	13	11	13	12	11	13	55	114
Tax Offsets													
Indirect Business Tax Offset.....	(3)	(2)	(2)	(2)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(14)	(29)
Reduction in Federal Excise Taxes.....	(0)	(1)	(1)	(1)	(2)	(1)	(1)	(1)	(1)	(1)	(1)	(6)	(13)
Total Federal Tax Offsets.....	(3)	(2)	(3)	(3)	(4)	(5)	(4)	(5)	(5)	(4)	(5)	(20)	(42)
Net Additional Receipts to US Government.....	7	4	4	5	6	8	7	8	8	7	8	35	72
POTENTIAL USES/CHANGES													
State Attorneys General Proposals, Total.....	---	5	5	6	7	9	6	6	7	4	4	31	58
Offset Reduction in State Excise Taxes.....	1	1	1	2	2	2	2	2	2	2	2	8	16
Use of Youth Look-Back Surcharge (90% grants).....	---	---	---	---	---	2	0	3	1	1	3	2	10
Potential Increase in Federal Medicaid Match.....	1	1	2	2	2	3	2	3	3	3	3	11	25
Total Potential Uses.....	2	7	8	9	11	15	11	14	12	9	11	51	109

NOTE Net additional receipts levels assume the elimination of the credit for BBA excise taxes.

Potential Budgetary Impacts of Tobacco Agreement -- Assuming Industry Payments Are Classified As
Indirect Business Taxes and Youth Targets are Not Met
(in billions of dollars)

Total Payment/volume adjusted 08/13/97
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	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	98-03	98-08
Federal revenues:													
Industry payments:													
Up-front payment.....	10.0	---	---	---	---	---	---	---	---	---	---	10.0	10.0
Public health trust funds in bill.....	---	2.5	2.5	3.5	4.0	5.0	2.5	2.5	2.5	---	---	17.5	25.0
Base amounts in bill.....	---	6.0	7.0	8.0	10.0	10.0	12.5	12.5	12.5	15.0	15.0	41.0	108.5
Adult sales volume adjustments.....	---	(1.1)	(2.0)	(3.0)	(4.2)	(4.6)	(4.6)	(4.7)	(4.7)	(4.8)	(4.8)	(14.9)	(38.5)
Credits for civil suits at cap.....	---	(1.4)	(1.5)	(1.6)	(1.9)	(1.8)	(2.3)	(2.3)	(2.3)	(2.7)	(2.7)	(8.1)	(20.3)
Inflation adjustments on above.....	---	---	0.2	0.4	0.7	1.1	1.3	1.6	1.8	2.0	2.3	2.4	11.4
Credit for BBA97 excise tax increase.....	---	---	(1.9)	(1.8)	(2.6)	(2.5)	(2.5)	(2.5)	(2.5)	(2.5)	(2.5)	(8.8)	(21.3)
Additional Payments to offset BBA97 Credits.....	---	---	1.9	1.8	2.6	2.5	2.5	2.5	2.5	2.5	2.5	8.8	21.3
Look-back surcharge.....	---	---	---	---	---	1.7	0.4	2.6	1.3	1.4	2.9	1.7	10.4
User fees for nonparticipants.....	---	---	---	---	---	---	---	---	---	---	---	---	---
Net penalties.....	---	---	---	---	---	---	---	---	---	---	---	---	---
Subtotal, industry payments.....	10.0	6.0	6.2	7.3	8.7	11.4	9.8	12.2	11.2	10.9	12.6	49.7	106.5
Tax offset at 25% (IBT).....	(2.5)	(1.5)	(1.6)	(1.8)	(2.2)	(2.9)	(2.5)	(3.1)	(2.8)	(2.7)	(3.2)	(12.4)	(26.6)
Reduction in tobacco excise taxes (non-PAYGO).....	(0.4)	(0.5)	(0.9)	(1.2)	(1.5)	(1.5)	(1.5)	(1.5)	(1.5)	(1.5)	(1.5)	(6.1)	(13.4)
Total, Federal revenues.....	7.1	4.0	3.7	4.3	5.0	7.1	5.9	7.7	6.9	6.7	8.0	31.2	66.4
Federal outlays:													
Public health trust funds in bill.....	---	2.5	2.6	3.7	4.4	5.6	2.9	3.0	3.1	---	---	18.8	27.7
HHS direct programs and grants to States.....	---	0.1	0.1	0.1	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.9	2.3
FDA direct enforcement and grants to States.....	---	0.3	0.3	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.4	1.6	3.4
Grants to States for ASSIST-type programs.....	---	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.5	1.3
Direct Federal R&D to discourage tobacco use.....	---	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.5	1.1
Payments to tobacco-sponsored events/teams.....	---	---	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.3	0.8
Public educ. campaign run by non-profit board.....	---	0.5	0.5	0.5	0.5	0.6	0.6	0.6	0.6	0.6	0.7	2.7	5.7
HHS payments for tobacco use cessation programs.....	---	1.0	1.0	1.1	1.1	1.7	1.7	1.8	1.8	1.9	2.0	5.9	15.1
Spending of look-back surcharge (90% grants).....	---	---	---	---	---	1.7	0.4	2.6	1.3	1.4	2.9	1.7	10.4
Subtotal, specified spending in bill.....	---	4.6	4.8	6.0	6.9	10.5	6.6	9.0	7.9	5.0	6.5	32.9	67.9
Unspecified residual to reach total payments.....	10.0	1.4	1.4	1.3	1.8	0.9	3.2	3.3	3.3	5.9	6.1	16.8	38.6
Total, Federal outlays, excl. debt Service.....	10.0	6.0	6.2	7.3	8.7	11.4	9.8	12.2	11.2	10.9	12.6	49.7	106.5
Federal deficit:													
Revenues (deficit effect).....	(7.1)	(4.0)	(3.7)	(4.3)	(5.0)	(7.1)	(5.9)	(7.7)	(6.9)	(6.7)	(8.0)	(31.2)	(66.4)
Programmatic outlays.....	10.0	6.0	6.2	7.3	8.7	11.4	9.8	12.2	11.2	10.9	12.6	49.7	106.5
Debt service.....	0.1	0.2	0.3	0.5	0.6	0.9	1.1	1.3	1.6	1.9	2.2	2.6	10.8
Federal deficit.....	3.0	2.2	2.8	3.5	4.3	5.2	5.0	5.9	5.9	6.1	6.8	21.1	50.9
MEMORANDUM: PAYGO budget effects:													
Revenues (deficit effect).....	(7.5)	(4.5)	(4.7)	(5.5)	(6.5)	(8.6)	(7.4)	(9.2)	(8.4)	(8.2)	(9.5)	(37.3)	(79.9)
Outlays.....	10.0	6.0	6.2	7.3	8.7	11.4	9.8	12.2	11.2	10.9	12.6	49.7	106.5
Total PAYGO deficit effect.....	2.5	1.5	1.6	1.8	2.2	2.9	2.5	3.1	2.8	2.7	3.2	12.4	26.6
ADDENDA:													
Available (residual) spending if held to PAYGO neutrality....	7.5	(0.1)	(0.1)	(0.5)	(0.4)	(2.0)	0.8	0.2	0.5	3.2	2.9	4.4	12.0
Available (residual) spending if held to budget neutrality....	7.1	(0.6)	(1.1)	(1.8)	(1.9)	(3.5)	(0.7)	(1.3)	(1.0)	1.8	1.5	(1.7)	(1.5)
Deficit impact of higher CPI (COLAs and indexation).....	---	0.5	1.5	2.5	3.4	3.9	4.2	4.4	4.5	4.6	4.6	11.9	34.3
Potential increase in Federal matching grants(lower end)....	0.8	0.7	0.7	0.6	0.9	0.4	1.6	1.6	1.7	3.0	3.0	4.1	15.0
Potential increase in Federal matching grants(upper end)....	1.0	1.5	1.6	1.8	2.2	2.9	2.5	3.1	2.8	2.7	3.2	10.9	25.1
Reduction in current law State excise tax revenues.....	(0.7)	(0.9)	(1.2)	(1.5)	(1.6)	(1.6)	(1.6)	(1.6)	(1.6)	(1.6)	(1.6)	(7.6)	(15.7)

See Footnotes Next Page.

33% x BBA97
Payment

1. Reduction in tobacco volume is assumed to result solely from price increases due to passthrough of industry payments.
Access restrictions, public education, and cessation programs are assumed to have no additional effect.
2. Civil liability settlements are assumed to be at cap (33% of industry basic payments). Cap is assumed to be a single 33% cap for suits based on past and future conduct.
3. Surcharge double count adjustment is estimated as 80/60/40/20% of surcharge payments made 1/2/3/4 years prior.
4. No manufacturers are assumed to qualify for 75% good faith surcharge abatement.
5. All manufacturers are assumed to participate in the settlement.
6. All manufacturers are assumed to meet compliance plan and corporate culture requirements.
7. Amounts are assumed to increase for inflation as follows: (a) industry payments increase for inflation beginning in 2000;
(b) outlays increase for inflation beginning in 2000; (c) surcharge amount and cap increase for inflation beginning in 1997.
8. All industry payments are assumed to score as Federal Indirect Business Taxes (excise tax receipts).
As Indirect Business Taxes, industry payments are subject to a 25% income offset (BEA convention).
9. All payments are assumed to be spent as Federal outlays.
10. Industry payments are reduced to provide a credit for excise tax increases enacted as part of BBA '97.
11. States could use some portion of increased funds to increase matched grant spending, thereby generating a Federal match.
12. CPI effects shown as memorandum only because they at least partially overlap with the 25% income offset.

**Potential Budgetary Impacts of Tobacco Agreement -- Assuming Industry Payments Are Classified As
Voluntary (Offsetting) Payments and Youth Targets are Not Met**
(in billions of dollars)

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	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	98-03	98-08
Federal revenues:													
Industry payments:													
Up-front payment.....	10.0	---	---	---	---	---	---	---	---	---	---	10.0	10.0
Public health trust funds in bill.....	---	2.5	2.5	3.5	4.0	5.0	2.5	2.5	2.5	---	---	17.5	25.0
Base amounts in bill.....	---	6.0	7.0	8.0	10.0	10.0	12.5	12.5	12.5	15.0	15.0	41.0	108.5
Adult sales volume adjustments.....	---	(1.1)	(2.0)	(3.0)	(4.2)	(4.6)	(4.6)	(4.7)	(4.7)	(4.8)	(4.8)	(14.9)	(38.5)
Credits for civil suits at cap.....	---	(1.4)	(1.5)	(1.6)	(1.9)	(1.8)	(2.3)	(2.3)	(2.3)	(2.7)	(2.7)	(8.1)	(20.3)
Inflation adjustments on above.....	---	---	0.2	0.4	0.7	1.1	1.3	1.6	1.8	2.0	2.3	2.4	11.4
Credit for BBA97 excise tax increase.....	---	---	(1.9)	(1.8)	(2.6)	(2.5)	(2.5)	(2.5)	(2.5)	(2.5)	(2.5)	(8.8)	(21.3)
Additional Payments to offset BBA97 Credits.....	---	---	1.9	1.8	2.6	2.5	2.5	2.5	2.5	2.5	2.5	8.8	21.3
Look-back surcharge.....	---	---	---	---	---	1.7	0.4	2.6	1.3	1.4	2.9	1.7	10.4
User fees for nonparticipants.....	---	---	---	---	---	---	---	---	---	---	---	---	---
Net penalties.....	---	---	---	---	---	---	---	---	---	---	---	---	---
Subtotal, industry payments.....	10.0	6.0	6.2	7.3	8.7	11.4	9.8	12.2	11.2	10.9	12.6	49.7	106.5
Reduction in tobacco excise taxes (non-PAYGO).....	(0.4)	(0.5)	(0.9)	(1.2)	(1.5)	(1.5)	(1.5)	(1.5)	(1.5)	(1.5)	(1.5)	(6.1)	(13.4)
Total, Federal revenues.....	9.6	5.5	5.3	6.1	7.2	9.9	8.3	10.8	9.7	9.5	11.2	43.6	93.0
Federal outlays:													
Public health trust funds in bill.....	---	2.5	2.6	3.7	4.4	5.6	2.9	3.0	3.1	---	---	18.8	27.7
HHS direct programs and grants to States.....	---	0.1	0.1	0.1	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.9	2.3
FDA direct enforcement and grants to States.....	---	0.3	0.3	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.4	1.6	3.4
Grants to States for ASSIST-type programs.....	---	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.5	1.3
Direct Federal R&D to discourage tobacco use.....	---	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.5	1.1
Payments to tobacco-sponsored events/teams.....	---	---	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.3	0.8
Public educ. campaign run by non-profit board.....	---	0.5	0.5	0.5	0.5	0.6	0.6	0.6	0.6	0.6	0.7	2.7	5.7
HHS payments for tobacco use cessation programs.....	---	1.0	1.0	1.1	1.1	1.7	1.7	1.8	1.8	1.9	2.0	5.9	15.1
Spending of look-back surcharge (90% grants).....	---	---	---	---	---	1.7	0.4	2.6	1.3	1.4	2.9	1.7	10.4
Subtotal, specified spending in bill.....	---	4.6	4.8	6.0	6.9	10.5	6.6	9.0	7.9	5.0	6.5	32.9	67.9
Unspecified residual to reach total payments.....	10.0	1.4	1.4	1.3	1.8	0.9	3.2	3.3	3.3	5.9	6.1	16.8	38.6
Total, Federal outlays, excl. debt Service.....	10.0	6.0	6.2	7.3	8.7	11.4	9.8	12.2	11.2	10.9	12.6	49.7	106.5
Federal deficit:													
Revenues (deficit effect).....	(9.6)	(5.5)	(5.3)	(6.1)	(7.2)	(9.9)	(8.3)	(10.8)	(9.7)	(9.5)	(11.2)	(43.6)	(93.0)
Programmatic outlays.....	10.0	6.0	6.2	7.3	8.7	11.4	9.8	12.2	11.2	10.9	12.6	49.7	106.5
Debt service.....	0.0	0.0	0.1	0.1	0.2	0.3	0.4	0.4	0.5	0.6	0.7	0.7	3.4
Federal deficit.....	0.4	0.5	1.0	1.4	1.7	1.8	1.8	1.9	2.0	2.1	2.2	6.8	6.8
MEMORANDUM: PAYGO budget effects:													
Revenues (deficit effect).....	(10.0)	(6.0)	(6.2)	(7.3)	(8.7)	(11.4)	(9.8)	(12.2)	(11.2)	(10.9)	(12.6)	(49.7)	(106.5)
Outlays.....	10.0	6.0	6.2	7.3	8.7	11.4	9.8	12.2	11.2	10.9	12.6	49.7	106.5
Total PAYGO deficit effect.....	---	---	---	---	---	---	---	---	---	---	---	---	---
ADDENDA:													
Available (residual) spending if held to PAYGO neutrality....	10.0	1.4	1.4	1.3	1.8	0.9	3.2	3.3	3.3	5.9	6.1	16.8	38.6
Available (residual) spending if held to budget neutrality.....	9.6	0.9	0.5	0.1	0.3	(0.6)	1.7	1.8	1.8	4.5	4.6	10.7	25.1
Deficit impact of higher CPI (COLAs and indexation).....	---	0.5	1.5	2.5	3.4	3.9	4.2	4.4	4.5	4.6	4.6	11.9	34.3
Potential increase in Federal matching grants(lower end)....	0.8	0.7	0.7	0.6	0.9	0.4	1.6	1.6	1.7	3.0	3.0	4.1	15.0
Potential increase in Federal matching grants(upper end)....	1.0	1.5	1.6	1.8	2.2	2.9	2.5	3.1	2.8	2.7	3.2	10.9	25.1
Reduction in current law State excise tax revenues.....	(0.7)	(0.9)	(1.2)	(1.5)	(1.6)	(1.6)	(1.6)	(1.6)	(1.6)	(1.6)	(1.6)	(7.6)	(15.7)

See Footnotes Next Page.

1. Reduction in tobacco volume is assumed to result solely from price increases due to passthrough of industry payments.
Access restrictions, public education, and cessation programs are assumed to have no additional effect.
2. Civil liability settlements are assumed to be at cap (33% of industry basic payments). Cap is assumed to be a single 33% cap for suits based on past and future conduct.
3. Surcharge double count adjustment is estimated as 80/60/40/20% of surcharge payments made 1/2/3/4 years prior.
4. No manufacturers are assumed to qualify for 75% good faith surcharge abatement.
5. All manufacturers are assumed to participate in the settlement.
6. All manufacturers are assumed to meet compliance plan and corporate culture requirements.
7. Amounts are assumed to increase for inflation as follows: (a) industry payments increase for inflation beginning in 2000;
(b) outlays increase for inflation beginning in 2000; (c) surcharge amount and cap increase for inflation beginning in 1997.
8. All industry payments are assumed to score as Voluntary Payments (scored in Federal budget as offsetting receipts).
As Voluntary Payments (offsetting receipts), industry payments are not subject to a 25% income offset as would Indirect Business Taxes.
9. All payments are assumed to be spent as Federal outlays.
10. Industry payments are reduced to provide a credit for excise tax increases enacted as part of BBA '97.
11. States could use some portion of increased funds to increase matched grant spending, thereby generating a Federal match.
12. CPI effects shown as memorandum only because they at least partially overlap with the 25% income offset.

**Potential Budgetary Impacts of Tobacco Agreement -- Assuming Industry Payments Are Classified As
Indirect Business Taxes and Youth Targets are Met**
(in billions of dollars)

08/13/97
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	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	98-03	98-08
Federal revenues:													
Industry payments:													
Up-front payment.....	10.0	---	---	---	---	---	---	---	---	---	---	10.0	10.0
Public health trust funds in bill.....	---	2.5	2.5	3.5	4.0	5.0	2.5	2.5	2.5	---	---	17.5	25.0
Base amounts in bill.....	---	6.0	7.0	8.0	10.0	10.0	12.5	12.5	12.5	15.0	15.0	41.0	108.5
Adult sales volume adjustments.....	---	(1.1)	(2.0)	(3.0)	(4.2)	(4.6)	(4.6)	(4.7)	(4.7)	(4.8)	(4.8)	(14.9)	(38.5)
Credits for civil suits at cap.....	---	(1.4)	(1.5)	(1.6)	(1.9)	(1.8)	(2.3)	(2.3)	(2.3)	(2.7)	(2.7)	(8.1)	(20.3)
Inflation adjustments on above.....	---	---	0.2	0.4	0.7	1.1	1.3	1.6	1.8	2.0	2.3	2.4	11.4
Credit for BBA97 excise tax increase.....	---	---	(1.9)	(1.8)	(2.5)	(2.5)	(2.5)	(2.5)	(2.5)	(2.4)	(2.4)	(8.8)	(21.1)
Additional Payments to offset BBA97 Credits.....	---	---	1.9	1.8	2.5	2.5	2.5	2.5	2.5	2.4	2.4	8.8	21.1
Look-back surcharge.....	---	---	---	---	---	---	---	---	---	---	---	---	---
User fees for nonparticipants.....	---	---	---	---	---	---	---	---	---	---	---	---	---
Net penalties.....	---	---	---	---	---	---	---	---	---	---	---	---	---
Subtotal, industry payments.....	10.0	6.0	6.2	7.3	8.7	9.7	9.4	9.6	9.9	9.5	9.8	48.0	96.1
Tax offset at 25% (IBT).....	(2.5)	(1.5)	(1.6)	(1.8)	(2.2)	(2.4)	(2.3)	(2.4)	(2.5)	(2.4)	(2.4)	(12.0)	(24.0)
Reduction in tobacco excise taxes (non-PAYGO).....	(0.4)	(0.5)	(0.9)	(1.2)	(1.5)	(1.5)	(1.5)	(1.5)	(1.5)	(1.5)	(1.5)	(6.2)	(13.9)
Total, Federal revenues.....	7.1	4.0	3.7	4.3	5.0	5.7	5.5	5.7	5.8	5.6	5.8	29.8	58.2
Federal outlays:													
Public health trust funds in bill.....	---	2.5	2.6	3.7	4.4	5.6	2.9	3.0	3.1	---	---	18.8	27.7
HHS direct programs and grants to States.....	---	0.1	0.1	0.1	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.9	2.3
FDA direct enforcement and grants to States.....	---	0.3	0.3	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.4	1.6	3.4
Grants to States for ASSIST-type programs.....	---	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.5	1.3
Direct Federal R&D to discourage tobacco use.....	---	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.5	1.1
Payments to tobacco-sponsored events/teams.....	---	---	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.3	0.8
Public educ. campaign run by non-profit board.....	---	0.5	0.5	0.5	0.5	0.6	0.6	0.6	0.6	0.6	0.7	2.7	5.7
HHS payments for tobacco use cessation programs.....	---	1.0	1.0	1.1	1.1	1.7	1.7	1.8	1.8	1.9	2.0	5.9	15.1
Spending of look-back surcharge (90% grants).....	---	---	---	---	---	---	---	---	---	---	---	---	---
Subtotal, specified spending in bill.....	---	4.6	4.8	6.0	6.9	8.8	6.2	6.4	6.5	3.6	3.7	31.2	57.5
Unspecified residual to reach total payments.....	10.0	1.4	1.4	1.3	1.8	0.9	3.2	3.3	3.3	5.9	6.1	16.8	38.6
Total, Federal outlays, excl. debt Service.....	10.0	6.0	6.2	7.3	8.7	9.7	9.4	9.6	9.9	9.5	9.8	48.0	96.1
Federal deficit:													
Revenues (deficit effect).....	(7.1)	(4.0)	(3.7)	(4.3)	(5.0)	(5.7)	(5.5)	(5.7)	(5.8)	(5.6)	(5.8)	(29.8)	(58.2)
Programmatic outlays.....	10.0	6.0	6.2	7.3	8.7	9.7	9.4	9.6	9.9	9.5	9.8	48.0	96.1
Debt service.....	0.1	0.2	0.3	0.5	0.6	0.9	1.1	1.3	1.6	1.8	2.1	2.6	10.5
Federal deficit.....	3.0	2.2	2.8	3.5	4.3	4.8	5.0	5.3	5.6	5.8	6.1	20.8	48.5
MEMORANDUM: PAYGO budget effects:													
Revenues (deficit effect).....	(7.5)	(4.5)	(4.7)	(5.5)	(6.5)	(7.3)	(7.0)	(7.2)	(7.4)	(7.1)	(7.3)	(36.0)	(72.1)
Outlays.....	10.0	6.0	6.2	7.3	8.7	9.7	9.4	9.6	9.9	9.5	9.8	48.0	96.1
Total PAYGO deficit effect.....	2.5	1.5	1.6	1.8	2.2	2.4	2.3	2.4	2.5	2.4	2.4	12.0	24.0
ADDENDA:													
Available (residual) spending if held to PAYGO neutrality....	7.5	(0.1)	(0.1)	(0.5)	(0.4)	(1.5)	0.9	0.9	0.8	3.6	3.6	4.8	14.6
Available (residual) spending if held to budget neutrality....	7.1	(0.6)	(1.1)	(1.8)	(1.9)	(3.1)	(0.7)	(0.7)	(0.7)	2.0	2.1	(1.4)	0.6
Deficit impact of higher CPI (COLAs and indexation).....	---	0.5	1.5	2.5	3.4	3.9	4.2	4.4	4.5	4.6	4.6	11.9	34.3
Potential increase in Federal matching grants(lower end)....	0.8	0.7	0.7	0.6	0.9	0.4	1.6	1.6	1.7	3.0	3.0	4.1	15.0
Potential increase in Federal matching grants(upper end)....	1.0	1.5	1.6	1.8	2.2	2.4	2.3	2.4	2.5	2.4	2.4	10.5	22.5
Reduction in current law State excise tax revenues.....	(0.7)	(0.9)	(1.2)	(1.6)	(1.7)	(1.7)	(1.7)	(1.7)	(1.7)	(1.7)	(1.7)	(7.8)	(16.2)

See Footnotes Next Page.

1. Reduction in tobacco volume is assumed to result solely from price increases due to passthrough of industry payments.
Access restrictions, public education, and cessation programs are assumed to have no additional effect.
2. Civil liability settlements are assumed to be at cap (33% of industry basic payments). Cap is assumed to be a single 33% cap for suits based on past and future conduct.
3. Surcharge double count adjustment is estimated as 80/60/40/20% of surcharge payments made 1/2/3/4 years prior.
4. No manufacturers are assumed to qualify for 75% good faith surcharge abatement.
5. All manufacturers are assumed to participate in the settlement.
6. All manufacturers are assumed to meet compliance plan and corporate culture requirements.
7. Amounts are assumed to increase for inflation as follows: (a) industry payments increase for inflation beginning in 2000;
(b) outlays increase for inflation beginning in 2000; (c) surcharge amount and cap increase for inflation beginning in 1997.
8. All industry payments are assumed to score as Federal Indirect Business Taxes (excise tax receipts).
As Indirect Business Taxes, industry payments are subject to a 25% income offset (BEA convention).
9. All payments are assumed to be spent as Federal outlays.
10. Industry payments are reduced to provide a credit for excise tax increases enacted as part of BBA '97.
11. States could use some portion of increased funds to increase matched grant spending, thereby generating a Federal match
12. CPI effects shown as memorandum only because they at least partially overlap with the 25% income offset.

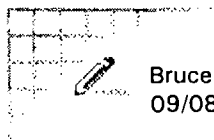
**Potential Budgetary Impacts of Tobacco Agreement -- Assuming Industry Payments Are Classified As
Voluntary (Offsetting) Payments and Youth Targets are Met**
(in billions of dollars)

08/13/97
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	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	98-03	98-08
Federal revenues:													
Industry payments:													
Up-front payment.....	10.0	---	---	---	---	---	---	---	---	---	---	10.0	10.0
Public health trust funds in bill.....	---	2.5	2.5	3.5	4.0	5.0	2.5	2.5	2.5	---	---	17.5	25.0
Base amounts in bill.....	---	6.0	7.0	8.0	10.0	10.0	12.5	12.5	12.5	15.0	15.0	41.0	108.5
Adult sales volume adjustments.....	---	(1.1)	(2.0)	(3.0)	(4.2)	(4.6)	(4.6)	(4.7)	(4.7)	(4.8)	(4.8)	(14.9)	(38.5)
Credits for civil suits at cap.....	---	(1.4)	(1.5)	(1.6)	(1.9)	(1.8)	(2.3)	(2.3)	(2.3)	(2.7)	(2.7)	(8.1)	(20.3)
Inflation adjustments on above.....	---	---	0.2	0.4	0.7	1.1	1.3	1.6	1.8	2.0	2.3	2.4	11.4
Credit for BBA97 excise tax increase.....	---	---	(1.9)	(1.8)	(2.5)	(2.5)	(2.5)	(2.5)	(2.5)	(2.4)	(2.4)	(8.8)	(21.1)
Additional Payments to offset BBA97 Credits.....	---	---	1.9	1.8	2.5	2.5	2.5	2.5	2.5	2.4	2.4	8.8	21.1
Look-back surcharge.....	---	---	---	---	---	---	---	---	---	---	---	---	---
User fees for nonparticipants.....	---	---	---	---	---	---	---	---	---	---	---	---	---
Net penalties.....	---	---	---	---	---	---	---	---	---	---	---	---	---
Subtotal, industry payments.....	10.0	6.0	6.2	7.3	8.7	9.7	9.4	9.6	9.9	9.5	9.8	48.0	96.1
Reduction in tobacco excise taxes (non-PAYGO).....	(0.4)	(0.5)	(0.9)	(1.2)	(1.5)	(1.5)	(1.5)	(1.5)	(1.5)	(1.5)	(1.5)	(6.2)	(13.9)
Total, Federal revenues.....	9.6	5.5	5.3	6.1	7.2	8.2	7.8	8.1	8.3	8.0	8.2	41.8	82.2
Federal outlays:													
Public health trust funds in bill.....	---	2.5	2.6	3.7	4.4	5.6	2.9	3.0	3.1	---	---	18.8	27.7
HHS direct programs and grants to States.....	---	0.1	0.1	0.1	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.9	2.3
FDA direct enforcement and grants to States.....	---	0.3	0.3	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.4	1.6	3.4
Grants to States for ASSIST-type programs.....	---	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.5	1.3
Direct Federal R&D to discourage tobacco use.....	---	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.5	1.1
Payments to tobacco-sponsored events/teams.....	---	---	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.3	0.8
Public educ. campaign run by non-profit board.....	---	0.5	0.5	0.5	0.5	0.6	0.6	0.6	0.6	0.6	0.7	2.7	5.7
HHS payments for tobacco use cessation programs.....	---	1.0	1.0	1.1	1.1	1.7	1.7	1.8	1.8	1.9	2.0	5.9	15.1
Spending of look-back surcharge (90% grants).....	---	---	---	---	---	---	---	---	---	---	---	---	---
Subtotal, specified spending in bill.....	---	4.6	4.8	6.0	6.9	8.8	6.2	6.4	6.5	3.6	3.7	31.2	57.5
Unspecified residual to reach total payments.....	10.0	1.4	1.4	1.3	1.8	0.9	3.2	3.3	3.3	5.9	6.1	16.8	38.6
Total, Federal outlays, excl. debt Service.....	10.0	6.0	6.2	7.3	8.7	9.7	9.4	9.6	9.9	9.5	9.8	48.0	96.1
Federal deficit:													
Revenues (deficit effect).....	(9.6)	(5.5)	(5.3)	(6.1)	(7.2)	(8.2)	(7.8)	(8.1)	(8.3)	(8.0)	(8.2)	(41.8)	(82.2)
Programmatic outlays.....	10.0	6.0	6.2	7.3	8.7	9.7	9.4	9.6	9.9	9.5	9.8	48.0	96.1
Debt service.....	0.0	0.0	0.1	0.1	0.2	0.3	0.4	0.5	0.6	0.7	0.8	0.7	3.5
Federal deficit.....	0.4	0.6	1.0	1.4	1.7	1.8	1.9	2.0	2.1	2.2	2.3	6.9	6.9
MEMORANDUM: PAYGO budget effects:													
Revenues (deficit effect).....	(10.0)	(6.0)	(6.2)	(7.3)	(8.7)	(9.7)	(9.4)	(9.6)	(9.9)	(9.5)	(9.8)	(48.0)	(96.1)
Outlays.....	10.0	6.0	6.2	7.3	8.7	9.7	9.4	9.6	9.9	9.5	9.8	48.0	96.1
Total PAYGO deficit effect.....	---	---	---	---	---	---	---	---	---	---	---	---	---
ADDENDA:													
Available (residual) spending if held to PAYGO neutrality....	10.0	1.4	1.4	1.3	1.8	0.9	3.2	3.3	3.3	5.9	6.1	16.8	38.6
Available (residual) spending if held to budget neutrality....	9.6	0.9	0.5	0.1	0.3	(0.7)	1.7	1.7	1.8	4.4	4.5	10.6	24.7
Deficit impact of higher CPI (COLAs and indexation).....	---	0.5	1.5	2.5	3.4	3.9	4.2	4.4	4.5	4.6	4.6	11.9	34.3
Potential increase in Federal matching grants(lower end)....	0.8	0.7	0.7	0.6	0.9	0.4	1.6	1.6	1.7	3.0	3.0	4.1	15.0
Potential increase in Federal matching grants(upper end)....	1.0	1.5	1.6	1.8	2.2	2.4	2.3	2.4	2.5	2.4	2.4	10.5	22.5
Reduction in current law State excise tax revenues.....	(0.7)	(0.9)	(1.2)	(1.6)	(1.7)	(1.7)	(1.7)	(1.7)	(1.7)	(1.7)	(1.7)	(7.8)	(16.2)

See Footnotes Next Page.

1. Reduction in tobacco volume is assumed to result solely from price increases due to passthrough of industry payments
Access restrictions, public education, and cessation programs are assumed to have no additional effect.
2. Civil liability settlements are assumed to be at cap (33% of industry basic payments). Cap is assumed to be a single 33% cap for suits based on past and future conduct.
3. Surcharge double count adjustment is estimated as 80/60/40/20% of surcharge payments made 1/2/3/4 years prior.
4. No manufacturers are assumed to qualify for 75% good faith surcharge abatement.
5. All manufacturers are assumed to participate in the settlement.
6. All manufacturers are assumed to meet compliance plan and corporate culture requirements.
7. Amounts are assumed to increase for inflation as follows: (a) industry payments increase for inflation beginning in 2000;
(b) outlays increase for inflation beginning in 2000; (c) surcharge amount and cap increase for inflation beginning in 1997.
8. All industry payments are assumed to score as Voluntary Payments (scored in Federal budget as offsetting receipts).
As Voluntary Payments (offsetting receipts), industry payments are not subject to a 25% income offset as would Indirect Business Taxes.
9. All payments are assumed to be spent as Federal outlays.
10. Industry payments are reduced to provide a credit for excise tax increases enacted as part of BBA '97.
11. States could use some portion of increased funds to increase matched grant spending, thereby generating a Federal match.
12. CPI effects shown as memorandum only because they at least partially overlap with the 25% income offset.



Bruce N. Reed
09/08/97 01:37:47 PM

Record Type: Record

To: Jerold R. Mande/OSTP/EOP

cc:

Subject: New lookback scenario

Tier I: If they miss by less than 5 pts in yr 5, 10 pts in yr 7, or 15 pts in yr 10, the companies would pay \$80m a point, non-deductible, non-abatable, brand by brand, no cap.

Tier II: For each point they miss beyond 5, 10, and 15, they would be hit with a permanent surcharge of a penny a pack, adjusted for inflation, which would have to be passed through as a price increase. This has the virtue of costing the companies every year through eternity, without the up-and-down quirks of double-counting.

On Tier II, ask Treasury to run this using two different assumptions. Under the 1st assumption, the per-pack surcharge at yr 5 would count toward yr 7 and yr 10. In other words, if the companies were 30 points off in yr 5, and triggered a 25-cent surcharge, that permanent 25-cent increase would count toward future surcharges -- so that a 50-point miss in yr 7 would lead to an additional per-pack increase of 15 cents, not an additional increase of 40 cents on top of the 25 cents. (sorry if that's confusing).

Under the other scenario, the surcharges would be cumulative -- up to 25 cents in yr 5, another 40 cents in yr 7, another 45 cents in yr 10 if companies missed the targets completely.

For simplicity's sake, why don't we try a 3rd scenario, where Tier I is less than 10 pts off at every stage -- 5, 7, and 10 -- and the maximum per-pack increase is 20 cents in yr 5, 40 cents in yr 7, and 50 cents in yr 10.

Call me if these don't make sense. Thanks. The sooner they can run these numbers, the better it will be for Chris and the budget folks.

Patrick G. Locke

09/09/97 12:48:11 PM

Record Type: Record

To: Jerold R. Mande/OSTP/EOP

cc: joseph j. minarik/omb/eop, Hugh T. Connelly/OMB/EOP, Susanne D. Lind/OMB/EOP

Subject: Re: New lookback scenerios 

Here are the new scenarios you asked for. All the scenarios assume that the BBA excise tax credit is repealed. For each of the three teen surcharge variants, I have run one version where teen consumption responds only to the deal's price increases, and a second version where the deal's nonprice provisions cause a 30% reduction in teen smoking on top of the price effect.

Note that with tier 1 of the surcharge specified as nondeductible, there is now an increase in corporate income taxes in all the scenarios. The assumption is that in addition to passing through the surcharge, the companies tack on a further price increase that allows them to pay taxes on the surcharge payments and preserve the same profits as they would otherwise have booked.

I have not done any modeling of the "brand by brand" concept for the surcharge. Without more data on differential marketing to teens across firms, I have no way to model this right now.

Because the excise tax increases in tier 2 of the youth surcharge are buried in the spreadsheet files, I'm showing them in the table below. With a 30% nonprice effect, tier 2 of the surcharge doesn't kick in until year 10. Otherwise, you get fairly hefty excise taxes starting in year 5.

	<u>Year 5</u>	<u>Year 7</u>	<u>Year 10</u>
Noncumulative excise tax above 5/10/15			
Price effects only	21	31	35
30% nonprice effect	0	0	5
Cumulative excise tax above 5/10/15			
Price effects only	21	52	83
30% nonprice effect	0	0	5
Noncumulative excise tax above 10/10/10			
Price effects only	16	32	40
30% nonprice effect	0	0	10

Here are the files for the noncumulative excise tax above 5/10/15 percentage points. The first file (tobac13.wk4) is price effects only; the second file (tobac13n.wk4) has the 30% nonprice effect.



tobac13.wk



tobac13n.wk

Here are the files for the cumulative excise tax above 5/10/15 percentage points.



tobac14.wk



tobac14n.wk

Here are the files for the noncumulative excise tax above 10/10/10 percentage points.



tobac15.wk



tobac15n.wk

tobac 13. wk

SUMMARY OF BUDGETARY EFFECTS OF PROPOSED SETTLEMENT
TWO TIER SURCHARGE WITH NONCUMULATIVE EXCISE TAX ABOVE 5/10/15 POINT SHORTFALL
(In billions of dollars)

09/09/97

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	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	98-03	98-08	98-23
RECEIPTS														
Base Payment (inc. trust and up-front payment).....	10	9	10	12	14	15	15	15	15	15	15	69	144	369
Payments to Recoup Excise Tax Credit and/or Losses..	---	---	---	---	---	---	---	---	---	---	---	---	---	---
Adult Sales Volume Adjustment.....	---	(1)	(1)	(2)	(2)	(3)	(3)	(3)	(3)	(3)	(4)	(9)	(26)	(84)
Credit for Personal Compensation Claims.....	---	(2)	(2)	(2)	(3)	(3)	(3)	(3)	(3)	(4)	(4)	(11)	(29)	(84)
Inflation Adjustment.....	---	0	0	1	1	1	2	2	2	2	3	4	15	95
Credit for BBA Excise Taxes.....	---	---	---	---	---	---	---	---	---	---	---	---	---	---
Look-Back Surcharge for Youth Consumption.....	---	---	---	---	---	1	0	1	0	0	1	1	3	13
Net Industry Settlement Payments.....	10	6	7	8	10	11	10	11	11	10	11	52	106	308
Tax Offsets														
Indirect Business Tax Offset.....	(3)	(2)	(2)	(2)	(2)	(3)	(3)	(3)	(3)	(3)	(3)	(13)	(27)	(77)
Corporate Income Tax on Look-Back Surcharge.....	---	---	---	---	---	0	0	0	0	0	0	0	2	7
Youth Excise Tax Trigger.....	---	---	---	---	---	3	3	4	4	4	5	3	24	96
Reduction in Existing Federal Excise Taxes.....	---	(0)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(4)	(9)	(26)
Total Federal Tax Offsets.....	(3)	(2)	(2)	(3)	(3)	(1)	(1)	1	1	1	1	(13)	(10)	(1)
Net Additional Receipts to US Government.....	8	4	5	6	7	11	10	12	12	11	12	39	96	308
POTENTIAL USES/CHANGES														
State Attorneys General Proposals, Total.....	---	5	5	6	7	9	6	7	7	4	4	32	59	132
Offset Reduction in State Excise Taxes.....	---	1	1	1	1	1	1	2	2	2	2	5	13	44
Use of Youth Look-Back Surcharge (90% grants).....	---	---	---	---	---	1	0	1	0	0	1	1	3	13
Potential Increase in Federal Medicaid Match.....	1	2	2	2	2	3	3	3	3	3	3	12	25	76
Total Potential Uses.....	1	7	7	9	11	14	10	12	11	8	9	49	100	264
Memoranda:														
Ad Valorem Equivalent of Net Payments.....	17%	18%	22%	26%	36%	34%	39%	38%	38%	40%				
Change in Total Cigarette Consumption.....	-7%	-8%	-10%	-12%	-16%	-15%	-17%	-17%	-17%	-17%				
Percentage Point Shortfall from Youth Target.....						26%	20%	41%	38%	40%	50%			

Potential Budgetary Impacts of Tobacco Agreement
Two Tier Surcharge With Noncumulative Excise Tax Above 5/10/15 Point Shortfall
(in billions of dollars)

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	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	98-03	98-08	98-23
Federal revenues:														
Industry payments:														
Up-front payment.....	10.0	---	---	---	---	---	---	---	---	---	---	10.0	10.0	10.0
Public health trust funds in bill.....	---	2.5	2.5	3.5	4.0	5.0	2.5	2.5	2.5	---	---	17.5	25.0	25.0
Base amounts in bill.....	---	6.0	7.0	8.0	10.0	10.0	12.5	12.5	12.5	15.0	15.0	41.0	108.5	333.5
Additional amounts to recover BBA97 credit.....	---	---	---	---	---	---	---	---	---	---	---	---	---	---
Additional amounts to recover excise tax losses.....	---	---	---	---	---	---	---	---	---	---	---	---	---	---
Adult sales volume adjustments.....	---	(0.7)	(1.1)	(1.6)	(2.4)	(3.2)	(3.1)	(3.5)	(3.4)	(3.4)	(3.6)	(9.0)	(26.0)	(83.8)
Credits for civil suits at cap.....	---	(1.8)	(2.0)	(2.3)	(2.7)	(2.6)	(3.3)	(3.2)	(3.2)	(3.8)	(3.8)	(11.5)	(28.7)	(83.9)
Inflation adjustments on above.....	---	0.2	0.4	0.7	1.1	1.5	1.7	1.9	2.2	2.4	2.6	3.9	14.7	94.6
Credit for BBA97 excise tax increase.....	---	---	---	---	---	---	---	---	---	---	---	---	---	---
Look-back surcharge.....	---	---	---	---	---	0.6	0.0	0.8	0.3	0.4	0.8	0.6	2.8	13.0
User fees for nonparticipants.....	---	---	---	---	---	---	---	---	---	---	---	---	---	---
Net penalties.....	---	---	---	---	---	---	---	---	---	---	---	---	---	---
Subtotal, industry payments.....	10.0	6.1	6.7	8.3	10.0	11.2	10.3	11.1	10.9	10.5	11.1	52.4	106.3	308.4
Tax offset at 25% (IBT).....	(2.5)	(1.5)	(1.7)	(2.1)	(2.5)	(2.8)	(2.6)	(2.8)	(2.7)	(2.6)	(2.8)	(13.1)	(26.6)	(77.1)
Corporate income tax on look-back surcharge.....	---	---	---	---	---	0.3	0.0	0.4	0.1	0.2	0.4	0.3	1.5	7.0
Teen excise tax.....	---	---	---	---	---	3.0	3.0	4.4	4.4	4.4	4.9	3.0	24.1	95.5
Reduction in tobacco excise taxes (non-PAYGO).....	---	(0.3)	(0.5)	(0.6)	(0.9)	(1.2)	(1.1)	(1.2)	(1.2)	(1.2)	(1.2)	(3.5)	(9.5)	(26.2)
Total, Federal revenues.....	7.5	4.3	4.5	5.6	6.6	10.6	9.7	11.9	11.6	11.3	12.4	39.1	95.8	307.6
Federal outlays:														
Public health trust funds in bill.....	---	2.6	2.7	3.8	4.5	5.8	3.0	3.1	3.2	---	---	19.4	28.6	28.6
HHS direct programs and grants to States.....	---	0.1	0.1	0.1	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.9	2.3	9.0
FDA direct enforcement and grants to States.....	---	0.3	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.4	1.6	3.5	11.7
Grants to States for ASSIST-type programs.....	---	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.5	1.3	5.0
Direct Federal R&D to discourage tobacco use.....	---	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.5	1.2	3.8
Payments to tobacco-sponsored events/teams.....	---	---	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.3	0.8	0.9
Public educ. campaign run by non-profit board.....	---	0.5	0.5	0.5	0.6	0.6	0.6	0.6	0.6	0.7	0.7	2.7	5.9	18.8
HHS payments for tobacco use cessation programs.....	---	1.0	1.1	1.1	1.1	1.7	1.8	1.8	1.9	2.0	2.0	6.0	15.5	54.1
Spending of look-back surcharge (90% grants).....	---	---	---	---	---	0.6	0.0	0.8	0.3	0.4	0.8	0.6	2.8	13.0
Subtotal, specified spending in bill.....	---	4.7	5.0	6.2	7.1	9.6	6.4	7.3	7.0	4.1	4.6	32.6	62.0	144.9
Unspecified residual to reach total payments.....	10.0	1.5	1.8	2.1	2.9	1.6	3.9	3.7	3.9	6.4	6.5	19.8	44.3	163.5
Total, Federal outlays, excl. debt Service.....	10.0	6.1	6.7	8.3	10.0	11.2	10.3	11.1	10.9	10.5	11.1	52.4	106.3	308.4
Federal deficit:														
Revenues (deficit effect).....	(7.5)	(4.3)	(4.5)	(5.6)	(6.6)	(10.6)	(9.7)	(11.9)	(11.6)	(11.3)	(12.4)	(39.1)	(95.8)	(307.6)
Programmatic outlays.....	10.0	6.1	6.7	8.3	10.0	11.2	10.3	11.1	10.9	10.5	11.1	52.4	106.3	308.4
Debt service.....	0.1	0.2	0.3	0.4	0.5	0.7	0.9	1.1	1.3	1.5	1.8	2.1	8.6	128.7
Federal deficit.....	2.6	2.1	2.5	3.1	3.9	1.3	1.5	0.3	0.7	0.7	0.5	15.5	19.1	129.5
MEMORANDUM: PAYGO budget effects:														
Revenues (deficit effect).....	(7.5)	(4.6)	(5.0)	(6.3)	(7.5)	(11.7)	(10.8)	(13.1)	(12.7)	(12.4)	(13.6)	(42.6)	(105.3)	(333.8)
Outlays.....	10.0	6.1	6.7	8.3	10.0	11.2	10.3	11.1	10.9	10.5	11.1	52.4	106.3	308.4
Total PAYGO deficit effect.....	2.5	1.5	1.7	2.1	2.5	(0.5)	(0.5)	(2.0)	(1.8)	(2.0)	(2.5)	9.8	1.0	(25.4)
ADDENDA:														
Available (residual) spending if held to PAYGO neutrality	7.5	(0.1)	0.1	0.0	0.4	2.1	4.4	5.8	5.7	8.4	9.0	10.0	43.3	188.9
Available (residual) spending if held to budget neutrality..	7.5	(0.4)	(0.5)	(0.6)	(0.5)	0.9	3.3	4.5	4.5	7.2	7.8	6.5	33.8	162.7
Deficit impact of higher CPI (COLAs and indexation).....	---	0.5	1.5	2.5	3.4	3.9	4.2	4.4	4.5	4.6	4.6	11.9	34.3	---
Potential increase in Federal matching grants(lower end)	0.8	0.7	0.9	1.1	1.4	0.8	2.0	1.9	2.0	3.2	3.2	5.7	17.9	77.5
Potential increase in Federal matching grants(upper end)	1.0	1.5	1.7	2.1	2.5	2.8	2.6	2.8	2.7	2.6	2.8	11.6	25.1	75.6
Reduction in current law State excise tax revenues.....	---	(0.6)	(0.7)	(0.9)	(1.1)	(1.5)	(1.4)	(1.7)	(1.6)	(1.7)	(1.8)	(4.7)	(12.8)	(43.8)

See Footnotes Next Page.

1. Reduction in tobacco volume is assumed to result solely from price increases due to passthrough of industry payments.
Access restrictions, public education, and cessation programs are assumed to have no additional effect.
2. In scenarios where youth targets are met, change in youth smoking is assumed to have no effect on total consumption.
3. Civil liability settlements are assumed to be at cap (33% of industry basic payments). Cap is assumed to be a single 33% cap for suits based on past and future conduct.
4. Corporate income tax rate of 35% is assumed in scenarios where surcharge payments are nondeductible.
5. No manufacturers are assumed to qualify for 75% good faith surcharge abatement.
6. All manufacturers are assumed to participate in the settlement.
7. All manufacturers are assumed to meet compliance plan and corporate culture requirements.
8. Amounts are assumed to increase for inflation as follows: (a) industry payments increase for inflation beginning in 1999;
(b) outlays increase for inflation beginning in 1999; (c) surcharge amount and cap increase for inflation beginning in 1997.
9. All industry payments are assumed to score as Federal indirect business taxes (excise tax receipts).
As indirect business taxes, industry payments are subject to a 25% income offset (BEA convention).
10. All payments are assumed to be spent as Federal outlays.
11. The credit for excise tax increases enacted as part of BBA '97 is assumed to be repealed.
12. States could use some portion of increased funds to increase matched grant spending, thereby generating a Federal match.
13. CPI effects shown as memorandum only because they at least partially overlap with the 25% income offset.

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SUMMARY OF BUDGETARY EFFECTS OF PROPOSED SETTLEMENT
TWO TIER SURCHARGE W/NONCUM. EXCISE TAX ABOVE 5/10/15 POINTS AND 30% TEEN NONPRICE EFFECT
(In billions of dollars)

09/09/97

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	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	98-03	98-08	98-23
RECEIPTS														
Base Payment (inc. trust and up-front payment).....	10	9	10	12	14	15	15	15	15	15	15	69	144	369
Payments to Recoup Excise Tax Credit and/or Losses..	---	---	---	---	---	---	---	---	---	---	---	---	---	---
Adult Sales Volume Adjustment.....	---	(1)	(1)	(2)	(2)	(3)	(3)	(3)	(3)	(3)	(3)	(9)	(24)	(77)
Credit for Personal Compensation Claims.....	---	(2)	(2)	(2)	(3)	(3)	(3)	(3)	(3)	(4)	(4)	(12)	(29)	(86)
Inflation Adjustment.....	---	0	0	1	1	2	2	2	2	2	3	4	15	97
Credit for BBA Excise Taxes.....	---	---	---	---	---	---	---	---	---	---	---	---	---	---
Look-Back Surcharge for Youth Consumption.....	---	---	---	---	---	---	---	0	1	0	1	---	3	13
Net Industry Settlement Payments.....	10	6	7	8	10	11	11	11	12	11	12	52	108	316
Tax Offsets														
Indirect Business Tax Offset.....	(3)	(2)	(2)	(2)	(2)	(3)	(3)	(3)	(3)	(3)	(3)	(13)	(27)	(79)
Corporate Income Tax on Look-Back Surcharge.....	---	---	---	---	---	---	---	0	1	0	1	---	1	7
Youth Excise Tax Trigger.....	---	---	---	---	---	---	---	---	---	---	1	---	1	12
Reduction in Existing Federal Excise Taxes.....	(0)	(0)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(4)	(9)	(24)
Total Federal Tax Offsets.....	(3)	(2)	(2)	(3)	(3)	(4)	(4)	(4)	(4)	(4)	(3)	(17)	(34)	(84)
Net Additional Receipts to US Government.....	7	4	4	6	7	7	7	7	8	7	9	36	75	231
POTENTIAL USES/CHANGES														
State Attorneys General Proposals, Total.....	---	5	5	6	7	9	6	7	7	4	4	32	59	132
Offset Reduction in State Excise Taxes.....	0	1	1	1	1	1	1	1	1	1	2	5	12	40
Use of Youth Look-Back Surcharge (90% grants).....	---	---	---	---	---	---	---	0	1	0	1	---	3	13
Potential Increase in Federal Medicaid Match.....	1	2	2	2	2	3	3	3	3	3	3	12	26	77
Total Potential Uses.....	1	7	7	9	11	13	10	11	12	8	10	48	99	262
Memoranda:														
Ad Valorem Equivalent of Net Payments.....	17%	18%	22%	26%	28%	28%	29%	32%	29%	34%				
Change in Total Cigarette Consumption.....	-8%	-9%	-11%	-13%	-14%	-14%	-14%	-15%	-14%	-16%				
Percentage Point Shortfall from Youth Target.....					-3%	-10%	10%	10%	8%	20%				

Potential Budgetary Impacts of Tobacco Agreement
Two Tier Surcharge w/Noncum. Excise Tax Above 5/10/15 Points and 30% Teen Nonprice Effect
(in billions of dollars)

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	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	98-03	98-08	98-23
Federal revenues:														
Industry payments:														
Up-front payment.....	10.0	---	---	---	---	---	---	---	---	---	---	10.0	10.0	10.0
Public health trust funds in bill.....	---	2.5	2.5	3.5	4.0	5.0	2.5	2.5	2.5	---	---	17.5	25.0	25.0
Base amounts in bill.....	---	6.0	7.0	8.0	10.0	10.0	12.5	12.5	12.5	15.0	15.0	41.0	108.5	333.5
Additional amounts to recover BBA97 credit.....	---	---	---	---	---	---	---	---	---	---	---	---	---	---
Additional amounts to recover excise tax losses.....	---	---	---	---	---	---	---	---	---	---	---	---	---	---
Adult sales volume adjustments.....	---	(0.7)	(1.1)	(1.6)	(2.4)	(2.7)	(2.8)	(2.8)	(3.1)	(3.0)	(3.3)	(8.6)	(23.5)	(76.6)
Credits for civil suits at cap.....	---	(1.8)	(2.0)	(2.3)	(2.7)	(2.7)	(3.4)	(3.3)	(3.3)	(4.0)	(3.9)	(11.5)	(29.4)	(86.1)
Inflation adjustments on above.....	---	0.2	0.4	0.7	1.1	1.5	1.7	2.0	2.3	2.5	2.7	3.9	15.1	97.1
Credit for BBA97 excise tax increase.....	---	---	---	---	---	---	---	---	---	---	---	---	---	---
Look-back surcharge.....	---	---	---	---	---	---	---	0.1	1.0	0.2	1.4	---	2.7	12.7
User fees for nonparticipants.....	---	---	---	---	---	---	---	---	---	---	---	---	---	---
Net penalties.....	---	---	---	---	---	---	---	---	---	---	---	---	---	---
Subtotal, industry payments.....	10.0	6.1	6.7	8.3	10.0	11.1	10.6	10.9	12.0	10.7	12.0	52.3	108.4	315.6
Tax offset at 25% (IBT).....	(2.5)	(1.5)	(1.7)	(2.1)	(2.5)	(2.8)	(2.6)	(2.7)	(3.0)	(2.7)	(3.0)	(13.1)	(27.1)	(78.9)
Corporate income tax on look-back surcharge.....	---	---	---	---	---	---	---	0.0	0.5	0.1	0.8	---	1.5	6.8
Teen excise tax.....	---	---	---	---	---	---	---	---	---	---	0.7	---	0.7	11.6
Reduction in tobacco excise taxes (non-PAYGO).....	(0.0)	(0.4)	(0.6)	(0.7)	(0.9)	(1.0)	(1.0)	(1.0)	(1.1)	(1.0)	(1.1)	(3.5)	(8.7)	(24.0)
Total, Federal revenues.....	7.5	4.2	4.5	5.6	6.6	7.3	6.9	7.2	8.5	7.1	9.3	35.7	74.8	231.1
Federal outlays:														
Public health trust funds in bill.....	---	2.6	2.7	3.8	4.5	5.8	3.0	3.1	3.2	---	---	19.4	28.6	28.6
HHS direct programs and grants to States.....	---	0.1	0.1	0.1	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.9	2.3	9.0
FDA direct enforcement and grants to States.....	---	0.3	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.4	1.6	3.5	11.7
Grants to States for ASSIST-type programs.....	---	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.5	1.3	5.0
Direct Federal R&D to discourage tobacco use.....	---	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.5	1.2	3.8
Payments to tobacco-sponsored events/teams.....	---	---	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.3	0.8	0.9
Public educ. campaign run by non-profit board.....	---	0.5	0.5	0.5	0.6	0.6	0.6	0.6	0.6	0.7	0.7	2.7	5.9	18.8
HHS payments for tobacco use cessation programs.....	---	1.0	1.1	1.1	1.1	1.7	1.8	1.8	1.9	2.0	2.0	6.0	15.5	54.1
Spending of look-back surcharge (90% grants).....	---	---	---	---	---	---	0.1	1.0	0.2	1.4	---	2.7	12.7	---
Subtotal, specified spending in bill.....	---	4.7	5.0	6.2	7.1	9.1	6.4	6.6	7.8	3.9	5.2	32.1	61.9	144.6
Unspecified residual to reach total payments.....	10.0	1.5	1.8	2.1	2.9	2.0	4.2	4.3	4.2	6.8	6.8	20.2	46.5	171.0
Total, Federal outlays, excl. debt Service.....	10.0	6.1	6.7	8.3	10.0	11.1	10.6	10.9	12.0	10.7	12.0	52.3	108.4	315.6
Federal deficit:														
Revenues (deficit effect).....	(7.5)	(4.2)	(4.5)	(5.6)	(6.6)	(7.3)	(6.9)	(7.2)	(8.5)	(7.1)	(9.3)	(35.7)	(74.8)	(231.1)
Programmatic outlays.....	10.0	6.1	6.7	8.3	10.0	11.1	10.6	10.9	12.0	10.7	12.0	52.3	108.4	315.6
Debt service.....	0.1	0.2	0.3	0.4	0.5	0.7	0.9	1.1	1.3	1.5	1.8	2.1	8.6	128.7
Federal deficit.....	2.6	2.1	2.5	3.1	3.9	4.4	4.5	4.8	4.8	5.1	4.4	18.7	42.3	213.2
MEMORANDUM: PAYGO budget effects:														
Revenues (deficit effect).....	(7.5)	(4.6)	(5.0)	(6.3)	(7.5)	(8.3)	(7.9)	(8.2)	(9.5)	(8.1)	(10.5)	(39.2)	(83.5)	(255.1)
Outlays.....	10.0	6.1	6.7	8.3	10.0	11.1	10.6	10.9	12.0	10.7	12.0	52.3	108.4	315.6
Total PAYGO deficit effect.....	2.5	1.5	1.7	2.1	2.5	2.8	2.6	2.7	2.4	2.6	1.5	13.1	24.9	60.5
ADDENDA:														
Available (residual) spending if held to PAYGO neutrality	7.5	(0.1)	0.1	0.0	0.4	(0.8)	1.6	1.6	1.8	4.3	5.3	7.1	21.6	110.5
Available (residual) spending if held to budget neutrality..	7.5	(0.4)	(0.5)	(0.7)	(0.6)	(1.7)	0.6	0.6	0.7	3.3	4.1	3.6	12.9	86.5
Deficit impact of higher CPI (COLAs and indexation).....	---	0.5	1.5	2.5	3.4	3.9	4.2	4.4	4.5	4.6	4.6	11.9	34.3	---
Potential increase in Federal matching grants(lower end)	0.8	0.7	0.9	1.1	1.4	1.0	2.1	2.1	2.1	3.4	3.4	5.9	19.0	81.3
Potential increase in Federal matching grants(upper end)	1.0	1.5	1.7	2.1	2.5	2.8	2.6	2.7	3.0	2.7	3.0	11.6	25.6	77.4
Reduction in current law State excise tax revenues.....	(0.0)	(0.7)	(0.7)	(0.9)	(1.1)	(1.2)	(1.3)	(1.3)	(1.5)	(1.4)	(1.6)	(4.7)	(11.8)	(40.1)

See Footnotes Next Page.

1. Reduction in tobacco volume is assumed to result solely from price increases due to passthrough of industry payments.
Access restrictions, public education, and cessation programs are assumed to have no additional effect.
2. In scenarios where youth targets are met, change in youth smoking is assumed to have no effect on total consumption.
3. Civil liability settlements are assumed to be at cap (33% of industry basic payments). Cap is assumed to be a single 33% cap for suits based on past and future conduct.
4. Corporate income tax rate of 35% is assumed in scenarios where surcharge payments are nondeductible.
5. No manufacturers are assumed to qualify for 75% good faith surcharge abatement.
6. All manufacturers are assumed to participate in the settlement.
7. All manufacturers are assumed to meet compliance plan and corporate culture requirements.
8. Amounts are assumed to increase for inflation as follows: (a) industry payments increase for inflation beginning in 1999;
(b) outlays increase for inflation beginning in 1999; (c) surcharge amount and cap increase for inflation beginning in 1997.
9. All industry payments are assumed to score as Federal indirect business taxes (excise tax receipts).
As indirect business taxes, industry payments are subject to a 25% income offset (BEA convention).
10. All payments are assumed to be spent as Federal outlays.
11. The credit for excise tax increases enacted as part of BBA '97 is assumed to be repealed.
12. States could use some portion of increased funds to increase matched grant spending, thereby generating a Federal match.
13. CPI effects shown as memorandum only because they at least partially overlap with the 25% income offset.

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SUMMARY OF BUDGETARY EFFECTS OF PROPOSED SETTLEMENT
TWO TIER SURCHARGE WITH CUMULATIVE EXCISE TAX ABOVE 5/10/15 POINT SHORTFALL
(In billions of dollars)

09/09/97

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	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	98-03	98-08	98-23
RECEIPTS														
Base Payment (inc. trust and up-front payment).....	10	9	10	12	14	15	15	15	15	15	15	69	144	369
Payments to Recoup Excise Tax Credit and/or Losses..	---	---	---	---	---	---	---	---	---	---	---	---	---	---
Adult Sales Volume Adjustment.....	---	(1)	(1)	(2)	(2)	(3)	(3)	(4)	(4)	(4)	(4)	(9)	(28)	(93)
Credit for Personal Compensation Claims.....	---	(2)	(2)	(2)	(3)	(3)	(3)	(3)	(3)	(4)	(4)	(11)	(28)	(81)
Inflation Adjustment.....	---	0	0	1	1	1	2	2	2	2	2	4	14	91
Credit for BBA Excise Taxes.....	---	---	---	---	---	---	---	---	---	---	---	---	---	---
Look-Back Surcharge for Youth Consumption.....	---	---	---	---	---	1	0	1	0	0	1	1	3	13
Net Industry Settlement Payments.....	10	6	7	8	10	11	10	11	11	10	11	52	105	298
Tax Offsets														
Indirect Business Tax Offset.....	(3)	(2)	(2)	(2)	(2)	(3)	(3)	(3)	(3)	(3)	(3)	(13)	(26)	(75)
Corporate Income Tax on Look-Back Surcharge.....	---	---	---	---	---	0	0	0	0	0	0	0	1	7
Youth Excise Tax Trigger.....	---	---	---	---	---	3	3	7	7	7	11	3	38	201
Reduction in Existing Federal Excise Taxes.....	---	(0)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(2)	(4)	(10)	(31)
Total Federal Tax Offsets.....	(3)	(2)	(2)	(3)	(3)	(1)	(1)	3	3	3	7	(13)	3	102
Net Additional Receipts to US Government.....	8	4	5	6	7	11	10	14	14	14	18	39	108	400
POTENTIAL USES/CHANGES														
State Attorneys General Proposals, Total.....	---	5	5	6	7	9	6	7	7	4	4	32	59	132
Offset Reduction in State Excise Taxes.....	---	1	1	1	1	1	1	2	2	2	2	5	14	52
Use of Youth Look-Back Surcharge (90% grants).....	---	---	---	---	---	1	0	1	0	0	1	1	3	13
Potential Increase in Federal Medicaid Match.....	1	2	2	2	2	3	3	3	3	3	3	12	25	73
Total Potential Uses.....	1	7	7	9	11	14	10	12	11	9	10	49	101	270
Memoranda:														
Ad Valorem Equivalent of Net Payments.....	17%	18%	22%	26%	36%	34%	45%	43%	43%	53%				
Change in Total Cigarette Consumption.....	-7%	-8%	-10%	-12%	-16%	-15%	-20%	-19%	-19%	-22%				
Percentage Point Shortfall from Youth Target.....						26%	20%	41%	34%	36%	46%			

Potential Budgetary Impacts of Tobacco Agreement
Two Tier Surcharge With Cumulative Excise Tax Above 5/10/15 Point Shortfall
(in billions of dollars)

09/09/97
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	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	98-03	98-08	98-23
Federal revenues:														
Industry payments:														
Up-front payment.....	10.0	---	---	---	---	---	---	---	---	---	---	10.0	10.0	10.0
Public health trust funds in bill.....	---	2.5	2.5	3.5	4.0	5.0	2.5	2.5	2.5	---	---	17.5	25.0	25.0
Base amounts in bill.....	---	6.0	7.0	8.0	10.0	10.0	12.5	12.5	12.5	15.0	15.0	41.0	108.5	333.5
Additional amounts to recover BBA97 credit.....	---	---	---	---	---	---	---	---	---	---	---	---	---	---
Additional amounts to recover excise tax losses.....	---	---	---	---	---	---	---	---	---	---	---	---	---	---
Adult sales volume adjustments.....	---	(0.7)	(1.1)	(1.6)	(2.4)	(3.2)	(3.1)	(3.8)	(3.7)	(3.7)	(4.3)	(9.0)	(27.6)	(93.1)
Credits for civil suits at cap.....	---	(1.8)	(2.0)	(2.3)	(2.7)	(2.6)	(3.3)	(3.1)	(3.1)	(3.7)	(3.5)	(11.5)	(28.2)	(80.8)
Inflation adjustments on above.....	---	0.2	0.4	0.7	1.1	1.5	1.7	1.9	2.2	2.3	2.5	3.9	14.4	90.7
Credit for BBA97 excise tax increase.....	---	---	---	---	---	---	---	---	---	---	---	---	---	---
Look-back surcharge.....	---	---	---	---	---	0.6	0.0	0.8	0.1	0.4	0.8	0.6	2.7	12.9
User fees for nonparticipants.....	---	---	---	---	---	---	---	---	---	---	---	---	---	---
Net penalties.....	---	---	---	---	---	---	---	---	---	---	---	---	---	---
Subtotal, industry payments.....	10.0	6.1	6.7	8.3	10.0	11.2	10.3	10.8	10.5	10.2	10.5	52.4	104.8	298.1
Tax offset at 25% (IBT).....	(2.5)	(1.5)	(1.7)	(2.1)	(2.5)	(2.8)	(2.6)	(2.7)	(2.6)	(2.6)	(2.6)	(13.1)	(26.2)	(74.5)
Corporate income tax on look-back surcharge.....	---	---	---	---	---	0.3	0.0	0.4	0.1	0.2	0.5	0.3	1.5	6.9
Teen excise tax.....	---	---	---	---	---	3.0	3.0	7.1	7.2	7.1	10.9	3.0	38.3	200.7
Reduction in tobacco excise taxes (non-PAYGO).....	---	(0.3)	(0.5)	(0.6)	(0.9)	(1.2)	(1.1)	(1.4)	(1.3)	(1.3)	(1.6)	(3.5)	(10.3)	(31.1)
Total, Federal revenues.....	7.5	4.3	4.5	5.6	6.6	10.6	9.7	14.2	13.8	13.7	17.7	39.1	108.1	400.0
Federal outlays:														
Public health trust funds in bill.....	---	2.6	2.7	3.8	4.5	5.8	3.0	3.1	3.2	---	---	19.4	28.6	28.6
HHS direct programs and grants to States.....	---	0.1	0.1	0.1	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.9	2.3	9.0
FDA direct enforcement and grants to States.....	---	0.3	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.4	1.6	3.5	11.7
Grants to States for ASSIST-type programs.....	---	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.5	1.3	5.0
Direct Federal R&D to discourage tobacco use.....	---	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.5	1.2	3.8
Payments to tobacco-sponsored events/teams.....	---	---	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.3	0.8	0.9
Public educ. campaign run by non-profit board.....	---	0.5	0.5	0.5	0.6	0.6	0.6	0.6	0.6	0.7	0.7	2.7	5.9	18.8
HHS payments for tobacco use cessation programs.....	---	1.0	1.1	1.1	1.1	1.7	1.8	1.8	1.9	2.0	2.0	6.0	15.5	54.1
Spending of look-back surcharge (90% grants).....	---	---	---	---	---	0.6	0.0	0.8	0.1	0.4	0.8	0.6	2.7	12.9
Subtotal, specified spending in bill.....	---	4.7	5.0	6.2	7.1	9.6	6.4	7.3	6.9	4.1	4.6	32.6	61.9	144.8
Unspecified residual to reach total payments.....	10.0	1.5	1.8	2.1	2.9	1.6	3.9	3.5	3.6	6.2	5.9	19.8	42.9	153.3
Total, Federal outlays, excl. debt Service.....	10.0	6.1	6.7	8.3	10.0	11.2	10.3	10.8	10.5	10.2	10.5	52.4	104.8	298.1
Federal deficit:														
Revenues (deficit effect).....	(7.5)	(4.3)	(4.5)	(5.6)	(6.6)	(10.6)	(9.7)	(14.2)	(13.8)	(13.7)	(17.7)	(39.1)	(108.1)	(400.0)
Programmatic outlays.....	10.0	6.1	6.7	8.3	10.0	11.2	10.3	10.8	10.5	10.2	10.5	52.4	104.8	298.1
Debt service.....	0.1	0.2	0.3	0.4	0.5	0.7	0.9	1.1	1.3	1.5	1.8	2.1	8.6	128.7
Federal deficit.....	2.6	2.1	2.5	3.1	3.9	1.3	1.5	(2.4)	(2.0)	(1.9)	(5.4)	15.5	5.3	26.7
MEMORANDUM: PAYGO budget effects:														
Revenues (deficit effect).....	(7.5)	(4.6)	(5.0)	(6.3)	(7.5)	(11.7)	(10.8)	(15.6)	(15.1)	(15.0)	(19.2)	(42.6)	(118.4)	(431.1)
Outlays.....	10.0	6.1	6.7	8.3	10.0	11.2	10.3	10.8	10.5	10.2	10.5	52.4	104.8	298.1
Total PAYGO deficit effect.....	2.5	1.5	1.7	2.1	2.5	(0.5)	(0.5)	(4.8)	(4.6)	(4.8)	(8.7)	9.8	(13.6)	(133.1)
ADDENDA:														
Available (residual) spending if held to PAYGO neutrality	7.5	(0.1)	0.1	0.0	0.4	2.1	4.4	8.3	8.3	10.9	14.6	10.0	56.5	286.4
Available (residual) spending if held to budget neutrality..	7.5	(0.4)	(0.5)	(0.6)	(0.5)	0.9	3.3	6.9	6.9	9.6	13.0	6.5	46.2	255.3
Deficit impact of higher CPI (COLAs and indexation).....	---	0.5	1.5	2.5	3.4	3.9	4.2	4.4	4.5	4.6	4.6	11.9	34.3	---
Potential increase in Federal matching grants(lower end)	0.8	0.7	0.9	1.1	1.4	0.8	2.0	1.7	1.8	3.1	2.9	5.7	17.2	72.4
Potential increase in Federal matching grants(upper end)	1.0	1.5	1.7	2.1	2.5	2.8	2.6	2.7	2.6	2.6	2.6	11.6	24.7	73.0
Reduction in current law State excise tax revenues.....	---	(0.6)	(0.7)	(0.9)	(1.1)	(1.5)	(1.4)	(1.9)	(1.8)	(1.9)	(2.3)	(4.7)	(14.0)	(52.3)

See Footnotes Next Page.

1. Reduction in tobacco volume is assumed to result solely from price increases due to passthrough of industry payments.
Access restrictions, public education, and cessation programs are assumed to have no additional effect.
2. In scenarios where youth targets are met, change in youth smoking is assumed to have no effect on total consumption.
3. Civil liability settlements are assumed to be at cap (33% of industry basic payments). Cap is assumed to be a single 33% cap for suits based on past and future conduct.
4. Corporate income tax rate of 35% is assumed in scenarios where surcharge payments are nondeductible.
5. No manufacturers are assumed to qualify for 75% good faith surcharge abatement.
6. All manufacturers are assumed to participate in the settlement.
7. All manufacturers are assumed to meet compliance plan and corporate culture requirements.
8. Amounts are assumed to increase for inflation as follows: (a) industry payments increase for inflation beginning in 1999; (b) outlays increase for inflation beginning in 1999; (c) surcharge amount and cap increase for inflation beginning in 1997.
9. All industry payments are assumed to score as Federal indirect business taxes (excise tax receipts).
As indirect business taxes, industry payments are subject to a 25% income offset (BEA convention).
10. All payments are assumed to be spent as Federal outlays.
11. The credit for excise tax increases enacted as part of BBA '97 is assumed to be repealed.
12. States could use some portion of increased funds to increase matched grant spending, thereby generating a Federal match.
13. CPI effects shown as memorandum only because they at least partially overlap with the 25% income offset.

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SUMMARY OF BUDGETARY EFFECTS OF PROPOSED SETTLEMENT
TWO TIER SURCHARGE WITH CUMULATIVE EXCISE TAX ABOVE 5/10/15 POINT SHORTFALL
(In billions of dollars)

09/09/97

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	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	98-03	98-08	98-23
RECEIPTS														
Base Payment (inc. trust and up-front payment).....	10	9	10	12	14	15	15	15	15	15	15	69	144	369
Payments to Recoup Excise Tax Credit and/or Losses..	---	---	---	---	---	---	---	---	---	---	---	---	---	---
Adult Sales Volume Adjustment.....	---	(1)	(1)	(2)	(2)	(3)	(3)	(3)	(3)	(3)	(3)	(9)	(24)	(77)
Credit for Personal Compensation Claims.....	---	(2)	(2)	(2)	(3)	(3)	(3)	(3)	(3)	(4)	(4)	(12)	(29)	(86)
Inflation Adjustment.....	---	0	0	1	1	2	2	2	2	2	3	4	15	97
Credit for BBA Excise Taxes.....	---	---	---	---	---	---	---	---	---	---	---	---	---	---
Look-Back Surcharge for Youth Consumption.....	---	---	---	---	---	---	---	0	1	0	1	---	3	13
Net Industry Settlement Payments.....	10	6	7	8	10	11	11	11	12	11	12	52	108	316
Tax Offsets														
Indirect Business Tax Offset.....	(3)	(2)	(2)	(2)	(2)	(3)	(3)	(3)	(3)	(3)	(3)	(13)	(27)	(79)
Corporate Income Tax on Look-Back Surcharge.....	---	---	---	---	---	---	---	0	1	0	1	---	1	7
Youth Excise Tax Trigger.....	---	---	---	---	---	---	---	---	---	---	1	---	1	12
Reduction in Existing Federal Excise Taxes.....	(0)	(0)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(4)	(9)	(24)
Total Federal Tax Offsets.....	(3)	(2)	(2)	(3)	(3)	(4)	(4)	(4)	(4)	(4)	(3)	(17)	(34)	(84)
Net Additional Receipts to US Government.....	7	4	4	6	7	7	7	7	8	7	9	36	75	231
POTENTIAL USES/CHANGES														
State Attorneys General Proposals, Total.....	---	5	5	6	7	9	6	7	7	4	4	32	59	132
Offset Reduction in State Excise Taxes.....	0	1	1	1	1	1	1	1	1	1	2	5	12	40
Use of Youth Look-Back Surcharge (90% grants).....	---	---	---	---	---	---	---	0	1	0	1	---	3	13
Potential Increase in Federal Medicaid Match.....	1	2	2	2	2	3	3	3	3	3	3	12	26	77
Total Potential Uses.....	1	7	7	9	11	13	10	11	12	8	10	48	99	262
Memoranda:														
Ad Valorem Equivalent of Net Payments.....	17%	18%	22%	26%	28%	28%	29%	32%	29%	34%				
Change in Total Cigarette Consumption.....	-8%	-9%	-11%	-13%	-14%	-14%	-14%	-15%	-14%	-16%				
Percentage Point Shortfall from Youth Target.....						-3%	-10%	10%	10%	8%	20%			

Potential Budgetary Impacts of Tobacco Agreement
Two Tier Surcharge With Cumulative Excise Tax Above 5/10/15 Point Shortfall
(in billions of dollars)

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	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	98-03	98-08	98-23
Federal revenues:														
Industry payments:														
Up-front payment.....	10.0	---	---	---	---	---	---	---	---	---	---	10.0	10.0	10.0
Public health trust funds in bill.....	---	2.5	2.5	3.5	4.0	5.0	2.5	2.5	2.5	---	---	17.5	25.0	25.0
Base amounts in bill.....	---	6.0	7.0	8.0	10.0	10.0	12.5	12.5	12.5	15.0	15.0	41.0	108.5	333.5
Additional amounts to recover BBA97 credit.....	---	---	---	---	---	---	---	---	---	---	---	---	---	---
Additional amounts to recover excise tax losses.....	---	---	---	---	---	---	---	---	---	---	---	---	---	---
Adult sales volume adjustments.....	---	(0.7)	(1.1)	(1.6)	(2.4)	(2.7)	(2.8)	(2.8)	(3.1)	(3.0)	(3.3)	(8.6)	(23.5)	(76.6)
Credits for civil suits at cap.....	---	(1.8)	(2.0)	(2.3)	(2.7)	(2.7)	(3.4)	(3.3)	(3.3)	(4.0)	(3.9)	(11.5)	(29.4)	(86.1)
Inflation adjustments on above.....	---	0.2	0.4	0.7	1.1	1.5	1.7	2.0	2.3	2.5	2.7	3.9	15.1	97.1
Credit for BBA97 excise tax increase.....	---	---	---	---	---	---	---	---	---	---	---	---	---	---
Look-back surcharge.....	---	---	---	---	---	---	---	0.1	1.0	0.2	1.4	---	2.7	12.7
User fees for nonparticipants.....	---	---	---	---	---	---	---	---	---	---	---	---	---	---
Net penalties.....	---	---	---	---	---	---	---	---	---	---	---	---	---	---
Subtotal, industry payments.....	10.0	6.1	6.7	8.3	10.0	11.1	10.6	10.9	12.0	10.7	12.0	52.3	108.4	315.6
Tax offset at 25% (IBT).....	(2.5)	(1.5)	(1.7)	(2.1)	(2.5)	(2.8)	(2.6)	(2.7)	(3.0)	(2.7)	(3.0)	(13.1)	(27.1)	(78.9)
Corporate income tax on look-back surcharge.....	---	---	---	---	---	---	---	0.0	0.5	0.1	0.8	---	1.5	6.8
Teen excise tax.....	---	---	---	---	---	---	---	---	---	---	0.7	---	0.7	11.6
Reduction in tobacco excise taxes (non-PAYGO).....	(0.0)	(0.4)	(0.6)	(0.7)	(0.9)	(1.0)	(1.0)	(1.0)	(1.1)	(1.0)	(1.1)	(3.5)	(8.7)	(24.0)
Total, Federal revenues.....	7.5	4.2	4.5	5.6	6.6	7.3	6.9	7.2	8.5	7.1	9.3	35.7	74.8	231.1
Federal outlays:														
Public health trust funds in bill.....	---	2.6	2.7	3.8	4.5	5.8	3.0	3.1	3.2	---	---	19.4	28.6	28.6
HHS direct programs and grants to States.....	---	0.1	0.1	0.1	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.9	2.3	9.0
FDA direct enforcement and grants to States.....	---	0.3	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.4	1.6	3.5	11.7
Grants to States for ASSIST-type programs.....	---	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.5	1.3	5.0
Direct Federal R&D to discourage tobacco use.....	---	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.5	1.2	3.8
Payments to tobacco-sponsored events/teams.....	---	---	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.3	0.8	0.9
Public educ. campaign run by non-profit board.....	---	0.5	0.5	0.5	0.6	0.6	0.6	0.6	0.6	0.7	0.7	2.7	5.9	18.8
HHS payments for tobacco use cessation programs.....	---	1.0	1.1	1.1	1.1	1.7	1.8	1.8	1.9	2.0	2.0	6.0	15.5	54.1
Spending of look-back surcharge (90% grants).....	---	---	---	---	---	---	---	0.1	1.0	0.2	1.4	---	2.7	12.7
Subtotal, specified spending in bill.....	---	4.7	5.0	6.2	7.1	9.1	6.4	6.6	7.8	3.9	5.2	32.1	61.9	144.6
Unspecified residual to reach total payments.....	10.0	1.5	1.8	2.1	2.9	2.0	4.2	4.3	4.2	6.8	6.8	20.2	46.5	171.0
Total, Federal outlays, excl. debt Service.....	10.0	6.1	6.7	8.3	10.0	11.1	10.6	10.9	12.0	10.7	12.0	52.3	108.4	315.6
Federal deficit:														
Revenues (deficit effect).....	(7.5)	(4.2)	(4.5)	(5.6)	(6.6)	(7.3)	(6.9)	(7.2)	(8.5)	(7.1)	(9.3)	(35.7)	(74.8)	(231.1)
Programmatic outlays.....	10.0	6.1	6.7	8.3	10.0	11.1	10.6	10.9	12.0	10.7	12.0	52.3	108.4	315.6
Debt service.....	0.1	0.2	0.3	0.4	0.5	0.7	0.9	1.1	1.3	1.5	1.8	2.1	8.6	128.7
Federal deficit.....	2.6	2.1	2.5	3.1	3.9	4.4	4.5	4.8	4.8	5.1	4.4	18.7	42.3	213.2
MEMORANDUM: PAYGO budget effects:														
Revenues (deficit effect).....	(7.5)	(4.6)	(5.0)	(6.3)	(7.5)	(8.3)	(7.9)	(8.2)	(9.5)	(8.1)	(10.5)	(39.2)	(83.5)	(255.1)
Outlays.....	10.0	6.1	6.7	8.3	10.0	11.1	10.6	10.9	12.0	10.7	12.0	52.3	108.4	315.6
Total PAYGO deficit effect.....	2.5	1.5	1.7	2.1	2.5	2.8	2.6	2.7	2.4	2.6	1.5	13.1	24.9	60.5
ADDENDA:														
Available (residual) spending if held to PAYGO neutrality	7.5	(0.1)	0.1	0.0	0.4	(0.8)	1.6	1.6	1.8	4.3	5.3	7.1	21.6	110.5
Available (residual) spending if held to budget neutrality..	7.5	(0.4)	(0.5)	(0.7)	(0.6)	(1.7)	0.6	0.6	0.7	3.3	4.1	3.6	12.9	86.5
Deficit impact of higher CPI (COLAs and indexation).....	---	0.5	1.5	2.5	3.4	3.9	4.2	4.4	4.5	4.6	4.6	11.9	34.3	---
Potential increase in Federal matching grants(lower end)	0.8	0.7	0.9	1.1	1.4	1.0	2.1	2.1	2.1	3.4	3.4	5.9	19.0	81.3
Potential increase in Federal matching grants(upper end)	1.0	1.5	1.7	2.1	2.5	2.8	2.6	2.7	3.0	2.7	3.0	11.6	25.6	77.4
Reduction in current law State excise tax revenues.....	(0.0)	(0.7)	(0.7)	(0.9)	(1.1)	(1.2)	(1.3)	(1.3)	(1.5)	(1.4)	(1.6)	(4.7)	(11.8)	(40.1)

See Footnotes Next Page.

1. Reduction in tobacco volume is assumed to result solely from price increases due to passthrough of industry payments.
Access restrictions, public education, and cessation programs are assumed to have no additional effect.
2. In scenarios where youth targets are met, change in youth smoking is assumed to have no effect on total consumption.
3. Civil liability settlements are assumed to be at cap (33% of industry basic payments). Cap is assumed to be a single 33% cap for suits based on past and future conduct.
4. Corporate income tax rate of 35% is assumed in scenarios where surcharge payments are nondeductible.
5. No manufacturers are assumed to qualify for 75% good faith surcharge abatement.
6. All manufacturers are assumed to participate in the settlement.
7. All manufacturers are assumed to meet compliance plan and corporate culture requirements.
8. Amounts are assumed to increase for inflation as follows: (a) industry payments increase for inflation beginning in 1999;
(b) outlays increase for inflation beginning in 1999; (c) surcharge amount and cap increase for inflation beginning in 1997.
9. All industry payments are assumed to score as Federal indirect business taxes (excise tax receipts).
As indirect business taxes, industry payments are subject to a 25% income offset (BEA convention).
10. All payments are assumed to be spent as Federal outlays.
11. The credit for excise tax increases enacted as part of BBA '97 is assumed to be repealed.
12. States could use some portion of increased funds to increase matched grant spending, thereby generating a Federal match.
13. CPI effects shown as memorandum only because they at least partially overlap with the 25% income offset.

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SUMMARY OF BUDGETARY EFFECTS OF PROPOSED SETTLEMENT
TWO TIER SURCHARGE W/NONCUMULATIVE EXCISE TAX ABOVE 10 POINT SHORTFALL
(In billions of dollars)

09/09/97

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	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	98-03	98-08	98-23
RECEIPTS														
Base Payment (inc. trust and up-front payment).....	10	9	10	12	14	15	15	15	15	15	15	69	144	369
Payments to Recoup Excise Tax Credit and/or Losses..	---	---	---	---	---	---	---	---	---	---	---	---	---	---
Adult Sales Volume Adjustment.....	---	(1)	(1)	(2)	(2)	(3)	(3)	(3)	(3)	(3)	(4)	(9)	(26)	(84)
Credit for Personal Compensation Claims.....	---	(2)	(2)	(2)	(3)	(3)	(3)	(3)	(3)	(4)	(4)	(11)	(29)	(84)
Inflation Adjustment.....	---	0	0	1	1	1	2	2	2	2	3	4	15	94
Credit for BBA Excise Taxes.....	---	---	---	---	---	---	---	---	---	---	---	---	---	---
Look-Back Surcharge for Youth Consumption.....	---	---	---	---	---	1	0	1	0	0	1	1	3	10
Net Industry Settlement Payments.....	10	6	7	8	10	12	10	11	11	10	11	53	107	305
Tax Offsets														
Indirect Business Tax Offset.....	(3)	(2)	(2)	(2)	(2)	(3)	(3)	(3)	(3)	(3)	(3)	(13)	(27)	(76)
Corporate Income Tax on Look-Back Surcharge.....	---	---	---	---	---	1	0	0	0	0	0	1	2	5
Youth Excise Tax Trigger.....	---	---	---	---	---	2	2	5	5	5	6	2	24	105
Reduction in Existing Federal Excise Taxes.....	---	(0)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(4)	(9)	(26)
Total Federal Tax Offsets.....	(3)	(2)	(2)	(3)	(3)	(1)	(1)	1	1	1	2	(14)	(11)	7
Net Additional Receipts to US Government.....	8	4	5	6	7	11	9	12	12	11	13	39	96	312
POTENTIAL USES/CHANGES														
State Attorneys General Proposals, Total.....	---	5	5	6	7	9	6	7	7	4	4	32	59	132
Offset Reduction in State Excise Taxes.....	---	1	1	1	1	1	1	2	2	2	2	5	13	44
Use of Youth Look-Back Surcharge (90% grants).....	---	---	---	---	---	1	0	1	0	0	1	1	3	10
Potential Increase in Federal Medicaid Match.....	1	2	2	2	2	3	3	3	3	3	3	12	25	75
Total Potential Uses.....	1	7	7	9	11	15	10	12	11	8	9	50	100	261
Memoranda:														
Ad Valorem Equivalent of Net Payments.....	17%	18%	22%	26%	36%	33%	40%	38%	38%	40%				
Change in Total Cigarette Consumption.....	-7%	-8%	-10%	-12%	-16%	-15%	-17%	-17%	-17%	-17%	-18%			
Percentage Point Shortfall from Youth Target.....						26%	19%	42%	38%	40%	50%			

Potential Budgetary Impacts of Tobacco Agreement
Two Tier Surcharge w/Noncumulative Excise Tax Above 10 Point Shortfall
(in billions of dollars)

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	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	98-03	98-08	98-23
Federal revenues:														
Industry payments:														
Up-front payment.....	10.0	---	---	---	---	---	---	---	---	---	---	10.0	10.0	10.0
Public health trust funds in bill.....	---	2.5	2.5	3.5	4.0	5.0	2.5	2.5	2.5	---	---	17.5	25.0	25.0
Base amounts in bill.....	---	6.0	7.0	8.0	10.0	10.0	12.5	12.5	12.5	15.0	15.0	41.0	108.5	333.5
Additional amounts to recover BBA97 credit.....	---	---	---	---	---	---	---	---	---	---	---	---	---	---
Additional amounts to recover excise tax losses.....	---	---	---	---	---	---	---	---	---	---	---	---	---	---
Adult sales volume adjustments.....	---	(0.7)	(1.1)	(1.6)	(2.4)	(3.2)	(3.0)	(3.5)	(3.4)	(3.5)	(3.6)	(9.0)	(26.0)	(84.2)
Credits for civil suits at cap.....	---	(1.8)	(2.0)	(2.3)	(2.7)	(2.6)	(3.3)	(3.2)	(3.2)	(3.8)	(3.8)	(11.5)	(28.7)	(83.7)
Inflation adjustments on above.....	---	0.2	0.4	0.7	1.1	1.5	1.7	1.9	2.2	2.4	2.6	3.9	14.7	94.4
Credit for BBA97 excise tax increase.....	---	---	---	---	---	---	---	---	---	---	---	---	---	---
Look-back surcharge.....	---	---	---	---	---	1.1	0.0	0.8	0.2	0.4	0.6	1.1	3.1	9.9
User fees for nonparticipants.....	---	---	---	---	---	---	---	---	---	---	---	---	---	---
Net penalties.....	---	---	---	---	---	---	---	---	---	---	---	---	---	---
Subtotal, industry payments.....	10.0	6.1	6.7	8.3	10.0	11.8	10.4	11.1	10.9	10.5	10.8	53.0	106.6	304.9
Tax offset at 25% (IBT).....	(2.5)	(1.5)	(1.7)	(2.1)	(2.5)	(2.9)	(2.6)	(2.8)	(2.7)	(2.6)	(2.7)	(13.2)	(26.6)	(76.2)
Corporate income tax on look-back surcharge.....	---	---	---	---	---	0.6	0.0	0.4	0.1	0.2	0.3	0.6	1.7	5.3
Teen excise tax.....	---	---	---	---	---	2.3	2.3	4.5	4.5	4.5	5.5	2.3	23.7	104.8
Reduction in tobacco excise taxes (non-PAYGO).....	---	(0.3)	(0.5)	(0.6)	(0.9)	(1.2)	(1.1)	(1.3)	(1.2)	(1.2)	(1.2)	(3.6)	(9.5)	(26.4)
Total, Federal revenues.....	7.5	4.3	4.5	5.6	6.6	10.5	9.1	12.0	11.6	11.4	12.7	39.0	95.8	312.3
Federal outlays:														
Public health trust funds in bill.....	---	2.6	2.7	3.8	4.5	5.8	3.0	3.1	3.2	---	---	19.4	28.6	28.6
HHS direct programs and grants to States.....	---	0.1	0.1	0.1	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.9	2.3	9.0
FDA direct enforcement and grants to States.....	---	0.3	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.4	1.6	3.5	11.7
Grants to States for ASSIST-type programs.....	---	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.5	1.3	5.0
Direct Federal R&D to discourage tobacco use.....	---	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.5	1.2	3.8
Payments to tobacco-sponsored events/teams.....	---	---	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.3	0.8	0.9
Public educ. campaign run by non-profit board.....	---	0.5	0.5	0.5	0.6	0.6	0.6	0.6	0.6	0.7	0.7	2.7	5.9	18.8
HHS payments for tobacco use cessation programs.....	---	1.0	1.1	1.1	1.1	1.7	1.8	1.8	1.9	2.0	2.0	6.0	15.5	54.1
Spending of look-back surcharge (90% grants).....	---	---	---	---	---	1.1	0.0	0.8	0.2	0.4	0.6	1.1	3.1	9.9
Subtotal, specified spending in bill.....	---	4.7	5.0	6.2	7.1	10.2	6.4	7.4	7.0	4.1	4.3	33.2	62.3	141.8
Unspecified residual to reach total payments.....	10.0	1.5	1.8	2.1	2.9	1.6	4.0	3.7	3.9	6.4	6.4	19.8	44.3	163.1
Total, Federal outlays, excl. debt Service.....	10.0	6.1	6.7	8.3	10.0	11.8	10.4	11.1	10.9	10.5	10.8	53.0	106.6	304.9
Federal deficit:														
Revenues (deficit effect).....	(7.5)	(4.3)	(4.5)	(5.6)	(6.6)	(10.5)	(9.1)	(12.0)	(11.6)	(11.4)	(12.7)	(39.0)	(95.8)	(312.3)
Programmatic outlays.....	10.0	6.1	6.7	8.3	10.0	11.8	10.4	11.1	10.9	10.5	10.8	53.0	106.6	304.9
Debt service.....	0.1	0.2	0.3	0.4	0.5	0.7	0.9	1.1	1.3	1.5	1.8	2.1	8.6	128.7
Federal deficit.....	2.6	2.1	2.5	3.1	3.9	1.9	2.2	0.2	0.5	0.6	(0.1)	16.0	19.4	121.2
MEMORANDUM: PAYGO budget effects:														
Revenues (deficit effect).....	(7.5)	(4.6)	(5.0)	(6.3)	(7.5)	(11.7)	(10.1)	(13.3)	(12.8)	(12.6)	(13.9)	(42.6)	(105.3)	(338.8)
Outlays.....	10.0	6.1	6.7	8.3	10.0	11.8	10.4	11.1	10.9	10.5	10.8	53.0	106.6	304.9
Total PAYGO deficit effect	2.5	1.5	1.7	2.1	2.5	0.1	0.3	(2.2)	(1.9)	(2.1)	(3.1)	10.4	1.3	(33.9)
ADDENDA:														
Available (residual) spending if held to PAYGO neutrality	7.5	(0.1)	0.1	0.0	0.4	1.5	3.7	5.9	5.8	8.5	9.6	9.4	43.0	197.0
Available (residual) spending if held to budget neutrality..	7.5	(0.4)	(0.5)	(0.6)	(0.5)	0.4	2.7	4.7	4.7	7.3	8.3	5.9	33.5	170.5
Deficit impact of higher CPI (COLAs and indexation).....	---	0.5	1.5	2.5	3.4	3.9	4.2	4.4	4.5	4.6	4.6	11.9	34.3	---
Potential increase in Federal matching grants(lower end)	0.8	0.7	0.9	1.1	1.4	0.8	2.0	1.9	2.0	3.2	3.2	5.7	17.9	77.3
Potential increase in Federal matching grants(upper end)	1.0	1.5	1.7	2.1	2.5	2.9	2.6	2.8	2.7	2.6	2.7	11.7	25.1	74.7
Reduction in current law State excise tax revenues.....	---	(0.6)	(0.7)	(0.9)	(1.1)	(1.5)	(1.4)	(1.7)	(1.6)	(1.7)	(1.8)	(4.7)	(12.8)	(44.1)

See Footnotes Next Page.

1. Reduction in tobacco volume is assumed to result solely from price increases due to passthrough of industry payments.
Access restrictions, public education, and cessation programs are assumed to have no additional effect.
2. In scenarios where youth targets are met, change in youth smoking is assumed to have no effect on total consumption.
3. Civil liability settlements are assumed to be at cap (33% of industry basic payments). Cap is assumed to be a single 33% cap for suits based on past and future conduct.
4. Corporate income tax rate of 35% is assumed in scenarios where surcharge payments are nondeductible.
5. No manufacturers are assumed to qualify for 75% good faith surcharge abatement.
6. All manufacturers are assumed to participate in the settlement.
7. All manufacturers are assumed to meet compliance plan and corporate culture requirements.
8. Amounts are assumed to increase for inflation as follows: (a) industry payments increase for inflation beginning in 1999;
(b) outlays increase for inflation beginning in 1999; (c) surcharge amount and cap increase for inflation beginning in 1997.
9. All industry payments are assumed to score as Federal indirect business taxes (excise tax receipts).
As indirect business taxes, industry payments are subject to a 25% income offset (BEA convention).
10. All payments are assumed to be spent as Federal outlays.
11. The credit for excise tax increases enacted as part of BBA '97 is assumed to be repealed.
12. States could use some portion of increased funds to increase matched grant spending, thereby generating a Federal match.
13. CPI effects shown as memorandum only because they at least partially overlap with the 25% income offset.

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SUMMARY OF BUDGETARY EFFECTS OF PROPOSED SETTLEMENT
TWO TIER SURCHARGE W/NONCUM. EXCISE TAX ABOVE 10 POINTS AND 30% TEEN NONPRICE EFFECT
(In billions of dollars)

09/09/97

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	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	98-03	98-08	98-23
RECEIPTS														
Base Payment (inc. trust and up-front payment).....	10	9	10	12	14	15	15	15	15	15	15	69	144	369
Payments to Recoup Excise Tax Credit and/or Losses..	---	---	---	---	---	---	---	---	---	---	---	---	---	---
Adult Sales Volume Adjustment.....	---	(1)	(1)	(2)	(2)	(3)	(3)	(3)	(3)	(3)	(3)	(9)	(24)	(77)
Credit for Personal Compensation Claims.....	---	(2)	(2)	(2)	(3)	(3)	(3)	(3)	(3)	(4)	(4)	(12)	(29)	(86)
Inflation Adjustment.....	---	0	0	1	1	2	2	2	2	2	3	4	15	97
Credit for BBA Excise Taxes.....	---	---	---	---	---	---	---	---	---	---	---	---	---	---
Look-Back Surcharge for Youth Consumption.....	---	---	---	---	---	---	---	0	1	0	1	---	2	9
Net Industry Settlement Payments.....	10	6	7	8	10	11	11	11	12	11	11	52	108	311
Tax Offsets														
Indirect Business Tax Offset.....	(3)	(2)	(2)	(2)	(2)	(3)	(3)	(3)	(3)	(3)	(3)	(13)	(27)	(78)
Corporate Income Tax on Look-Back Surcharge.....	---	---	---	---	---	---	---	0	1	0	1	---	1	5
Youth Excise Tax Trigger.....	---	---	---	---	---	---	---	---	---	---	1	---	1	23
Reduction in Existing Federal Excise Taxes.....	(0)	(0)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(4)	(9)	(24)
Total Federal Tax Offsets.....	(3)	(2)	(2)	(3)	(3)	(4)	(4)	(4)	(4)	(4)	(2)	(17)	(33)	(75)
Net Additional Receipts to US Government.....	7	4	4	6	7	7	7	7	8	7	9	36	75	237
POTENTIAL USES/CHANGES														
State Attorneys General Proposals, Total.....	---	5	5	6	7	9	6	7	7	4	4	32	59	132
Offset Reduction in State Excise Taxes.....	0	1	1	1	1	1	1	1	1	1	2	5	12	41
Use of Youth Look-Back Surcharge (90% grants).....	---	---	---	---	---	---	---	0	1	0	1	---	2	9
Potential Increase in Federal Medicaid Match.....	1	2	2	2	2	3	3	3	3	3	3	12	25	76
Total Potential Uses.....	1	7	7	9	11	13	10	11	12	8	9	48	99	258
Memoranda:														
Ad Valorem Equivalent of Net Payments.....	17%	18%	22%	26%	28%	28%	29%	32%	29%	34%				
Change in Total Cigarette Consumption.....	-8%	-9%	-11%	-13%	-14%	-14%	-14%	-15%	-14%	-16%				
Percentage Point Shortfall from Youth Target.....						-3%	-10%	10%	10%	8%	20%			

Potential Budgetary Impacts of Tobacco Agreement
Two Tier Surcharge w/Noncum. Excise Tax Above 10 Points and 30% Teen Nonprice Effect
(in billions of dollars)

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	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	98-03	98-08	98-23
Federal revenues:														
Industry payments:														
Up-front payment.....	10.0	---	---	---	---	---	---	---	---	---	---	10.0	10.0	10.0
Public health trust funds in bill.....	---	2.5	2.5	3.5	4.0	5.0	2.5	2.5	2.5	---	---	17.5	25.0	25.0
Base amounts in bill.....	---	6.0	7.0	8.0	10.0	10.0	12.5	12.5	12.5	15.0	15.0	41.0	108.5	333.5
Additional amounts to recover BBA97 credit.....	---	---	---	---	---	---	---	---	---	---	---	---	---	---
Additional amounts to recover excise tax losses.....	---	---	---	---	---	---	---	---	---	---	---	---	---	---
Adult sales volume adjustments.....	---	(0.7)	(1.1)	(1.6)	(2.4)	(2.7)	(2.8)	(2.8)	(3.1)	(3.0)	(3.3)	(8.6)	(23.5)	(77.0)
Credits for civil suits at cap.....	---	(1.8)	(2.0)	(2.3)	(2.7)	(2.7)	(3.4)	(3.3)	(3.3)	(4.0)	(3.9)	(11.5)	(29.4)	(86.0)
Inflation adjustments on above.....	---	0.2	0.4	0.7	1.1	1.5	1.7	2.0	2.3	2.5	2.7	3.9	15.1	97.0
Credit for BBA97 excise tax increase.....	---	---	---	---	---	---	---	---	---	---	---	---	---	---
Look-back surcharge.....	---	---	---	---	---	---	---	0.1	1.0	0.2	0.9	---	2.2	8.9
User fees for nonparticipants.....	---	---	---	---	---	---	---	---	---	---	---	---	---	---
Net penalties.....	---	---	---	---	---	---	---	---	---	---	---	---	---	---
Subtotal, industry payments.....	10.0	6.1	6.7	8.3	10.0	11.1	10.6	10.9	12.0	10.7	11.5	52.3	107.9	311.3
Tax offset at 25% (IBT).....	(2.5)	(1.5)	(1.7)	(2.1)	(2.5)	(2.8)	(2.6)	(2.7)	(3.0)	(2.7)	(2.9)	(13.1)	(27.0)	(77.8)
Corporate income tax on look-back surcharge.....	---	---	---	---	---	---	---	0.0	0.5	0.1	0.5	---	1.2	4.8
Teen excise tax.....	---	---	---	---	---	---	---	---	---	---	1.4	---	1.4	22.6
Reduction in tobacco excise taxes (non-PAYGO).....	(0.0)	(0.4)	(0.6)	(0.7)	(0.9)	(1.0)	(1.0)	(1.0)	(1.1)	(1.0)	(1.1)	(3.5)	(8.7)	(24.2)
Total, Federal revenues.....	7.5	4.2	4.5	5.6	6.6	7.3	6.9	7.2	8.5	7.1	9.4	35.7	74.9	236.7
Federal outlays:														
Public health trust funds in bill.....	---	2.6	2.7	3.8	4.5	5.8	3.0	3.1	3.2	---	---	19.4	28.6	28.6
HHS direct programs and grants to States.....	---	0.1	0.1	0.1	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.9	2.3	9.0
FDA direct enforcement and grants to States.....	---	0.3	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.4	1.6	3.5	11.7
Grants to States for ASSIST-type programs.....	---	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.5	1.3	5.0
Direct Federal R&D to discourage tobacco use.....	---	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.5	1.2	3.8
Payments to tobacco-sponsored events/teams.....	---	---	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.3	0.8	0.9
Public educ. campaign run by non-profit board.....	---	0.5	0.5	0.5	0.6	0.6	0.6	0.6	0.6	0.7	0.7	2.7	5.9	18.8
HHS payments for tobacco use cessation programs.....	---	1.0	1.1	1.1	1.1	1.7	1.8	1.8	1.9	2.0	2.0	6.0	15.5	54.1
Spending of look-back surcharge (90% grants).....	---	---	---	---	---	---	---	0.1	1.0	0.2	0.9	---	2.2	8.9
Subtotal, specified spending in bill.....	---	4.7	5.0	6.2	7.1	9.1	6.4	6.6	7.8	3.9	4.7	32.1	61.4	140.8
Unspecified residual to reach total payments.....	10.0	1.5	1.8	2.1	2.9	2.0	4.2	4.3	4.2	6.8	6.8	20.2	46.5	170.5
Total, Federal outlays, excl. debt Service.....	10.0	6.1	6.7	8.3	10.0	11.1	10.6	10.9	12.0	10.7	11.5	52.3	107.9	311.3
Federal deficit:														
Revenues (deficit effect).....	(7.5)	(4.2)	(4.5)	(5.6)	(6.6)	(7.3)	(6.9)	(7.2)	(8.5)	(7.1)	(9.4)	(35.7)	(74.9)	(236.7)
Programmatic outlays.....	10.0	6.1	6.7	8.3	10.0	11.1	10.6	10.9	12.0	10.7	11.5	52.3	107.9	311.3
Debt service.....	0.1	0.2	0.3	0.4	0.5	0.7	0.9	1.1	1.3	1.5	1.8	2.1	8.6	128.7
Federal deficit.....	2.6	2.1	2.5	3.1	3.9	4.4	4.5	4.8	4.8	5.1	3.8	18.7	41.7	203.3
MEMORANDUM: PAYGO budget effects:														
Revenues (deficit effect).....	(7.5)	(4.6)	(5.0)	(6.3)	(7.5)	(8.3)	(7.9)	(8.2)	(9.5)	(8.1)	(10.6)	(39.2)	(83.6)	(260.9)
Outlays.....	10.0	6.1	6.7	8.3	10.0	11.1	10.6	10.9	12.0	10.7	11.5	52.3	107.9	311.3
Total PAYGO deficit effect	2.5	1.5	1.7	2.1	2.5	2.8	2.6	2.7	2.4	2.6	0.9	13.1	24.3	50.4
ADDENDA:														
Available (residual) spending if held to PAYGO neutrality	7.5	(0.1)	0.1	0.0	0.4	(0.8)	1.6	1.6	1.8	4.3	5.8	7.1	22.2	120.1
Available (residual) spending if held to budget neutrality..	7.5	(0.4)	(0.5)	(0.7)	(0.6)	(1.7)	0.6	0.6	0.7	3.3	4.7	3.6	13.5	95.9
Deficit impact of higher CPI (COLAs and indexation).....	---	0.5	1.5	2.5	3.4	3.9	4.2	4.4	4.5	4.6	4.6	11.9	34.3	---
Potential increase in Federal matching grants(lower end)	0.8	0.7	0.9	1.1	1.4	1.0	2.1	2.1	2.1	3.4	3.4	5.9	19.0	81.0
Potential increase in Federal matching grants(upper end)	1.0	1.5	1.7	2.1	2.5	2.8	2.6	2.7	3.0	2.7	2.9	11.6	25.5	76.3
Reduction in current law State excise tax revenues.....	(0.0)	(0.7)	(0.7)	(0.9)	(1.1)	(1.2)	(1.3)	(1.3)	(1.5)	(1.4)	(1.6)	(4.7)	(11.8)	(40.5)

See Footnotes Next Page.

1. Reduction in tobacco volume is assumed to result solely from price increases due to passthrough of industry payments.
Access restrictions, public education, and cessation programs are assumed to have no additional effect.
2. In scenarios where youth targets are met, change in youth smoking is assumed to have no effect on total consumption.
3. Civil liability settlements are assumed to be at cap (33% of industry basic payments). Cap is assumed to be a single 33% cap for suits based on past and future conduct.
4. Corporate income tax rate of 35% is assumed in scenarios where surcharge payments are nondeductible.
5. No manufacturers are assumed to qualify for 75% good faith surcharge abatement.
6. All manufacturers are assumed to participate in the settlement.
7. All manufacturers are assumed to meet compliance plan and corporate culture requirements.
8. Amounts are assumed to increase for inflation as follows: (a) industry payments increase for inflation beginning in 1999; (b) outlays increase for inflation beginning in 1999; (c) surcharge amount and cap increase for inflation beginning in 1997.
9. All industry payments are assumed to score as Federal indirect business taxes (excise tax receipts).
As indirect business taxes, industry payments are subject to a 25% income offset (BEA convention).
10. All payments are assumed to be spent as Federal outlays.
11. The credit for excise tax increases enacted as part of BBA '97 is assumed to be repealed.
12. States could use some portion of increased funds to increase matched grant spending, thereby generating a Federal match.
13. CPI effects shown as memorandum only because they at least partially overlap with the 25% income offset.

SUMMARY OF BUDGETARY EFFECTS OF PROPOSED SETTLEMENT
WITH PAYMENTS INCREASED TO YIELD NET \$15 BILLION IN REAL DOLLARS IN 2008
(In billions of dollars)

09/03/97

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	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	98-03	98-08
RECEIPTS													
Base Payment (inc. trust and up-front payment).....	10	27	31	36	44	45	53	53	53	60	60	192	471
Payments to Recoup Excise Tax Credit and/or Losses..	---	---	---	---	---	---	---	---	---	---	---	---	---
Adult Sales Volume Adjustment.....	---	(6)	(8)	(10)	(15)	(16)	(21)	(22)	(22)	(27)	(28)	(55)	(175)
Credit for Personal Compensation Claims.....	---	(5)	(6)	(6)	(7)	(7)	(8)	(8)	(8)	(9)	(9)	(30)	(71)
Inflation Adjustment.....	---	0	1	2	3	4	5	5	6	7	8	10	41
Credit for BBA Excise Taxes.....	---	---	(2)	(2)	(3)	(3)	(2)	(2)	(2)	(2)	(2)	(9)	(20)
Look-Back Surcharge for Youth Consumption.....	---	---	---	---	---	---	---	1	1	0	1	---	2
Net Industry Settlement Payments.....	10	16	16	19	22	23	26	27	28	30	31	107	248
Tax Offsets													
Indirect Business Tax Offset.....	(3)	(4)	(4)	(5)	(6)	(6)	(6)	(7)	(7)	(7)	(8)	(27)	(62)
Corporate Income Tax on Look-Back Surcharge.....	---	---	---	---	---	---	---	---	---	---	---	---	---
Youth Excise Tax Trigger.....	---	---	---	---	---	---	---	---	---	---	---	---	---
Reduction in Existing Federal Excise Taxes.....	---	(1)	(1)	(2)	(2)	(2)	(3)	(3)	(3)	(3)	(3)	(9)	(22)
Total Federal Tax Offsets.....	(3)	(5)	(6)	(6)	(8)	(8)	(9)	(9)	(10)	(10)	(11)	(35)	(84)
Net Additional Receipts to US Government.....	8	11	11	13	14	15	17	18	18	19	20	71	164
POTENTIAL USES/CHANGES													
State Attorneys General Proposals, Total.....	---	5	5	6	7	9	6	7	7	4	4	32	59
Offset Reduction in State Excise Taxes.....	---	2	2	2	3	3	3	4	4	4	4	12	30
Use of Youth Look-Back Surcharge (90% grants).....	---	---	---	---	---	---	---	1	1	0	1	---	2
Potential Increase in Federal Medicaid Match.....	1	4	4	5	6	6	6	7	7	7	8	25	60
Total Potential Uses.....	1	11	11	13	15	18	16	17	18	15	17	69	153
Memoranda:													
Ad Valorem Equivalent of Net Payments.....	52%	53%	63%	75%	78%	93%	95%	96%	109%	112%			
Change in Total Cigarette Consumption.....	-22%	-23%	-26%	-31%	-32%	-37%	-37%	-37%	-37%	-41%	-41%		
Percentage Point Shortfall from Youth Target.....						-3%	-4%	9%	9%	9%	14%		

Potential Budgetary Impacts of Tobacco Agreement
With Payments Increased to Yield Net \$15 Billion in Real Dollars in 2008
(in billions of dollars)

09/03/97
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	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	98-03	98-08
Federal revenues:													
Industry payments:													
Up-front payment.....	10.0	---	---	---	---	---	---	---	---	---	---	10.0	10.0
Public health trust funds in bill.....	---	2.5	2.5	3.5	4.0	5.0	2.5	2.5	2.5	---	---	17.5	25.0
Base amounts in bill.....	---	24.0	28.0	32.0	40.0	40.0	50.5	50.5	50.5	60.0	60.0	164.0	435.5
Additional amounts to recover BBA97 credit.....	---	---	---	---	---	---	---	---	---	---	---	---	---
Additional amounts to recover excise tax losses.....	---	---	---	---	---	---	---	---	---	---	---	---	---
Adult sales volume adjustments.....	---	(5.9)	(7.8)	(10.3)	(15.3)	(16.0)	(21.4)	(21.8)	(22.0)	(27.1)	(27.5)	(55.4)	(175.2)
Credits for civil suits at cap.....	---	(4.9)	(5.5)	(6.0)	(6.9)	(6.8)	(7.9)	(7.8)	(7.8)	(8.7)	(8.6)	(30.1)	(71.0)
Inflation adjustments on above.....	---	0.5	1.0	1.8	2.7	3.5	4.6	5.4	6.2	7.4	8.2	9.6	41.3
Credit for BBA97 excise tax increase.....	---	---	(1.9)	(1.9)	(2.6)	(2.5)	(2.3)	(2.3)	(2.3)	(2.2)	(2.1)	(8.9)	(20.1)
Look-back surcharge.....	---	---	---	---	---	---	---	0.5	0.6	0.3	1.0	---	2.4
User fees for nonparticipants.....	---	---	---	---	---	---	---	---	---	---	---	---	---
Net penalties.....	---	---	---	---	---	---	---	---	---	---	---	---	---
Subtotal, industry payments.....	10.0	16.1	16.3	19.1	22.0	23.2	25.9	26.9	27.7	29.7	31.0	106.7	248.0
Tax offset at 25% (IBT).....	(2.5)	(4.0)	(4.1)	(4.8)	(5.5)	(5.8)	(6.5)	(6.7)	(6.9)	(7.4)	(7.7)	(26.7)	(62.0)
Corporate income tax on look-back surcharge.....	---	---	---	---	---	---	---	---	---	---	---	---	---
Teen excise tax.....	---	---	---	---	---	---	---	---	---	---	---	---	---
Reduction in tobacco excise taxes (non-PAYGO).....	---	(1.0)	(1.5)	(1.7)	(2.2)	(2.3)	(2.6)	(2.6)	(2.6)	(2.9)	(2.9)	(8.6)	(22.4)
Total, Federal revenues.....	7.5	11.1	10.8	12.6	14.3	15.1	16.8	17.6	18.2	19.4	20.3	71.4	163.6
Federal outlays:													
Public health trust funds in bill.....	---	2.6	2.7	3.8	4.5	5.8	3.0	3.1	3.2	---	---	19.4	28.6
HHS direct programs and grants to States.....	---	0.1	0.1	0.1	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.9	2.3
FDA direct enforcement and grants to States.....	---	0.3	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.4	1.6	3.5
Grants to States for ASSIST-type programs.....	---	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.5	1.3
Direct Federal R&D to discourage tobacco use.....	---	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.5	1.2
Payments to tobacco-sponsored events/teams.....	---	---	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.3	0.8
Public educ. campaign run by non-profit board.....	---	0.5	0.5	0.5	0.6	0.6	0.6	0.6	0.6	0.7	0.7	2.7	5.9
HHS payments for tobacco use cessation programs.....	---	1.0	1.1	1.1	1.1	1.7	1.8	1.8	1.9	2.0	2.0	6.0	15.5
Spending of look-back surcharge (90% grants).....	---	---	---	---	---	---	---	0.5	0.6	0.3	1.0	---	2.4
Subtotal, specified spending in bill.....	---	4.7	5.0	6.2	7.1	9.1	6.4	7.1	7.4	4.0	4.8	32.1	61.6
Unspecified residual to reach total payments.....	10.0	11.4	11.4	12.9	14.9	14.1	19.5	19.9	20.4	25.8	26.2	74.7	186.4
Total, Federal outlays, excl. debt Service.....	10.0	16.1	16.3	19.1	22.0	23.2	25.9	26.9	27.7	29.7	31.0	106.7	248.0
Federal deficit:													
Revenues (deficit effect).....	(7.5)	(11.1)	(10.8)	(12.6)	(14.3)	(15.1)	(16.8)	(17.6)	(18.2)	(19.4)	(20.3)	(71.4)	(163.6)
Programmatic outlays.....	10.0	16.1	16.3	19.1	22.0	23.2	25.9	26.9	27.7	29.7	31.0	106.7	248.0
Debt service.....	0.1	0.2	0.3	0.4	0.5	0.7	0.9	1.1	1.3	1.5	1.8	2.1	8.6
Federal deficit.....	2.6	5.2	5.8	6.8	8.2	8.7	10.0	10.5	10.9	11.9	12.5	37.4	93.0
MEMORANDUM: PAYGO budget effects:													
Revenues (deficit effect).....	(7.5)	(12.1)	(12.2)	(14.3)	(16.5)	(17.4)	(19.4)	(20.2)	(20.8)	(22.3)	(23.2)	(80.0)	(186.0)
Outlays.....	10.0	16.1	16.3	19.1	22.0	23.2	25.9	26.9	27.7	29.7	31.0	106.7	248.0
Total PAYGO deficit effect.....	2.5	4.0	4.1	4.8	5.5	5.8	6.5	6.7	6.9	7.4	7.7	26.7	62.0
ADDENDA:													
Available (residual) spending if held to PAYGO neutrality	7.5	7.4	7.3	8.1	9.4	8.3	13.0	13.1	13.4	18.4	18.5	48.0	124.4
Available (residual) spending if held to budget neutrality..	7.5	6.4	5.8	6.4	7.1	6.0	10.4	10.5	10.8	15.5	15.5	39.3	102.0
Deficit impact of higher CPI (COLAs and indexation).....	---	0.5	1.5	2.5	3.4	3.9	4.2	4.4	4.5	4.6	4.6	11.9	34.3
Potential increase in Federal matching grants(lower end)	0.8	5.7	5.7	6.4	7.4	7.1	9.8	9.9	10.2	12.9	13.1	33.1	88.9
Potential increase in Federal matching grants(upper end)	1.0	4.0	4.1	4.8	5.5	5.8	6.5	6.7	6.9	7.4	7.7	25.2	60.5
Reduction in current law State excise tax revenues.....	---	(1.8)	(1.9)	(2.3)	(2.7)	(2.9)	(3.4)	(3.5)	(3.6)	(4.1)	(4.3)	(11.6)	(30.4)

See Footnotes Next Page.

1. Reduction in tobacco volume is assumed to result solely from price increases due to passthrough of industry payments.
Access restrictions, public education, and cessation programs are assumed to have no additional effect.
2. Civil liability settlements are assumed to be at cap (33% of industry basic payments). Cap is assumed to be a single 33% cap for suits based on past and future conduct.
3. Corporate income tax rate of 35% is assumed in scenarios where surcharge payments are nondeductible.
4. No manufacturers are assumed to qualify for 75% good faith surcharge abatement.
5. All manufacturers are assumed to participate in the settlement.
6. All manufacturers are assumed to meet compliance plan and corporate culture requirements.
7. Amounts are assumed to increase for inflation as follows: (a) industry payments increase for inflation beginning in 1999;
(b) outlays increase for inflation beginning in 1999; (c) surcharge amount and cap increase for inflation beginning in 1997.
8. All industry payments are assumed to score as Federal Indirect Business Taxes (excise tax receipts).
As Indirect Business Taxes, industry payments are subject to a 25% income offset (BEA convention).
9. All payments are assumed to be spent as Federal outlays.
10. Industry payments are reduced to provide a credit for excise tax increases enacted as part of BBA '97.
11. States could use some portion of increased funds to increase matched grant spending, thereby generating a Federal match.
12. CPI effects shown as memorandum only because they at least partially overlap with the 25% income offset.

Patrick G. Locke

09/03/97 02:51:49 PM

Record Type: Record

To: Joseph J. Minarik/OMB/EOP
cc: Hugh T. Connelly/OMB/EOP, Randolph M. Lyon/OMB/EOP, Jerold R. Mande/OSTP/EOP
bcc:
Subject: Re: Tobacco penalty scenarios 

Here's the scenario to recover \$15 billion in real terms in 2008, net of the volume adjustment and the various budget offsets. I have updated the scenario to use the new method for calculating the look-back surcharge, consistent with the runs that I did last night. The new method doesn't change the results much: it still requires quadrupling the face value of payments (to \$60 billion a year) to recover the \$15 billion.



tobac10.wk

Jerry Mande also expressed interest in this scenario earlier today, so I am copying him on this email. Jerry was also interested in the magnitude of the price increases that would be required to meet the teen surcharge targets, if one assumed no nonprice effects. The price increases required are quite large, and increase as the teen reduction target ramps up to its eventual value of 60%. Meeting the 30% reduction target for 2002-2003 requires a 70% price increase. Meeting the 50% target for 2004-2006 requires a 120% price hike, and meeting the 60% target for 2007 onward would require raising prices 150%. In today's dollars, these price increases would be about \$1.30, \$2.20, and \$2.80 per pack respectively. By comparison, the per-pack price increases necessary to meet the payments specified in the agreement as it stands are only about 50 cents a pack.

Joseph J. Minarik

Joseph J. Minarik

09/03/97 01:56:52 PM

Record Type: Record

To: Patrick G. Locke/OMB/EOP
cc: Hugh T. Connelly/OMB/EOP
Subject: Re: Tobacco penalty scenarios 

Could you please send me the file of the summary table that pushes the base payment far enough to yield \$15 billion NET? Apparently Larry Summers think that it would be a live option, and

Jonathan Gruber would just like to see the magnitude of the damage. Thanks.